

3 1761 11651322 7

R85272




Presented to
The Library
of the
University of Toronto
by
Hon. C. P. McTague

CAI
Z 1
- 59721

Government
Publication
Cage

Canada. Royal commission on transportation.
Hearings. v. 126-128. 1961.

1961



Digitized by the Internet Archive
in 2023 with funding from
University of Toronto

<https://archive.org/details/31761116513227>

from C. P. McTaggart

ROYAL COMMISSION

ON

TRANSPORTATION

HEARINGS

HELD AT

OTTAWA

VOLUME No.:

126

DATE:

6 JAN 1961

OFFICIAL REPORTERS
ANGUS, STONEHOUSE & CO. LTD.

372 BAY STREET
TORONTO

EM. 4-7383

EM. 4-5865



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

I N D E X

Page No.

HAROLD, J.J.

Cross-examination	
By Mr. Perrault	20858
By Mr. Sinclair	20859
By Mr. Smith	20898
By The Commission	
Mr. Anscomb	20924
Mr. Mann	20927
Re-examination	
By Mr. Fournier	20941

DUBE, Y.

Direct examination	
By Mr. Fournier	20943
Cross-examination	
By Mr. Cooper	20944
By Mr. Carter	20971
By Mr. Sinclair	20977
By Mr. Smith	20955
By The Commission	
Mr. Balch	20975
Mr. Gobeil	20981
Mr. Mann	20985

NO EXHIBITS IN THIS VOLUME



ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held
in the Court Room, Board of
Transport Commissioners Offices,
Ottawa, Ontario, on the 6th
day of January, 1961.

---O---

COMMISSION

Mr. M.A. MacPherson	Chairman
Mr. H. Anscomb	Member
Mr. A.H. Balch	Member
Mr. R. Gobeil	Member
Mr. H.A. Mann	Member
Mr. A. Platt	Member

COMMISSION COUNSEL

Mr. A.G. Cooper, Q.C.	
Mr. G.S. Cumming	
Mr. F.W. Anderson	Secretary
Major N. Lafrance	Assistant Secretary

---O---



Ottawa, Ontario,
Friday, January 6, 1961.

--- On commencing at 10:00 a.m.

THE CHAIRMAN: Order, please. Mr.
Perrault?

MR. FOURNIER: Sir, before we proceed with
the enquiry I have some corrections to make.

First, while my friend Dr. Gobeil is here
I would like to reiterate the Province of Quebec's
condolences to him and tell him that the Province of
Quebec has appreciated the role played by his father
in the life of the Province of Quebec and in Canada.

Sir, I would like to draw the attention
of the Commission to a report which was made
yesterday by the Toronto Daily Star. I understand
it is a mistake, a misprint, or a misinterpretation
of the Quebec brief. It ought to be corrected,
as it has some importance.

It is on page 9, and this is the Daily
Star of January 5, 1961. At the last paragraph of
the article, it reads like this, regarding the
brief:

"The brief suggested one means of
reducing railway operating losses would
be to stop giving passes for free trips
to Members of Parliament and Senators".

MR. SINCLAIR: Correct.

MR. FOURNIER: We do not quite agree.

To the newspapers, I would like to draw
attention to paragraph 553, page 133 of the English
version of the submission, which reads as follows:



1
2
3 "Seventh, the railways have recommended
4 that Section 351 of the Railway Act be
5 repealed or amended to provide that
6 where Members of the Senate and House
7 of Commons and other privileged persons
8 are presently entitled to free transportation
9 services, the railways should be reimbursed
10 for such services and that similar
11 amendments should be made to Statutes
12 relating to the Board of Grain Commissioners,
13 the Department of National Revenue and the
14 Post Office Department (At page 76 of the
15 C.N.R. Submission).

16 In paragraph 554 we say:

17 "We are not in favour of the changes proposed.
18 We feel that Members of the House of Commons
19 and the Senate are fully entitled to the
20 transportation privileges they now enjoy,
21 and the the railways, as part of their
22 national responsibilities, should continue
23 to provide these services without remuneration
24 by the Government of Canada."

25 And I should say that is one good way for
26 Members of Parliament to watch and control those
27 railways.

28 THE CHAIRMAN: I think we understand your
29 submission.

30 MR. FOURNIER: But the purpose, sir -- I
should like the Toronto Daily Star to stress the
correction. We attach some importance to that.



1
2
3 COMMISSIONER MANN: You know, it is
4 the old question of misery liking company. Probably
5 the Toronto Star feels that because their employees
6 are losing their passes the rest of the country should
7 lose them too.

8 MR. SINCLAIR: Have lost.

9 COMMISSIONER MANN: Have lost, I'm sorry.

10 MR. FOURNIER: At page 20,826 of Volume
11 125, which is yesterday's, I would like to correct one
12 word here. It is at line 17, 18, 19, 20:

13 "MR. FOURNIER: I should think, sir,
14 that there is a question of legislation
15 there. We are coming into conditional
16 rights."

17 It should read as follows:

18 "MR. FOURNIER: I should think, sir,
19 that there is a question of legislation
20 there. We are coming into constitutional
21 rights."

22 There is another correction which I would
23 like to make, and it is a clerical errata. Table
24 13, in (1) at the bottom of the table it should
25 read instead of "Includes clothing", it should
26 read "Excludes clothing". In the French text,
27 it is written "Excludes". That is all, thank you.

28 THE CHAIRMAN: I wonder if Mr. Smith has
29 any questions to ask.

30 MR. SMITH: No, Mr. Chairman, as presently
advised I do not propose to ask Mr. Harold any
questions.



1
2
3 THE CHAIRMAN: Mr. Perrault?

4 CROSS-EXAMINATION BY MR. PERRAULT:

5 Q. Mr. Harold, I would like to refer you
6 to page 88 of the submission of the Province of Quebec,
7 paragraph 329.

8 A. Yes.

9 Q. "The Government of the Province of
10 Quebec believes that piggy-back service should be
11 available only to licensed truck operators and it
12 will enforce such a policy within the borders of the
Province of Quebec".

13 Almost all the ground has already been
14 covered through cross-examination on this paragraph
15 by other attorneys that appeared before I did.

16 I would just like to have perhaps a little
17 more clarification on this. I understand that
18 this paragraph does not mean to exclude piggy-back
service by railways with their own trailers?

19 A. Actually, I think we could go further
20 by saying that wherever Plan II -- that is, the
21 railway trailers -- are being transported under Plan
22 II, the Province of Quebec feels that Plan I -- that
23 is, the plan open to authorized permit holders
-- should be made available without question.

24 Q. But it does not exclude Plan II?

25 A. But certainly does not or it cannot not
26 exclude the right of the railways to do their own
27 transportation; at least, the transportation of
28 their own trailers.

29 Q. And that includes, also, I believe, the
30



1
2
3 pickup and delivery of the railways of their trailers
4 within metropolitan areas?

5 A. That is true.

6 MR. PERRAULT: Thank you, Mr. Chairman.
7 That will be all.

8 CROSS-EXAMINATION BY MR. SINCLAIR:

9 Q. Well, Mr. Harold, it is a pleasure for
10 a barrister to have the opportunity on occasion to
11 ask a question of a judge and then be able to follow
12 up his answer, and that is the privilege you are
affording us today.

13 A. I hope you won't get too much pleasure.

14 Q. I will have you do the pleasure, and I
15 hope you do, too, Mr. Harold, because I noted from
16 your qualifications that you attended McGill and
17 specialized in transportation economics and, in addition,
18 your qualifications noted that you have been a student
19 of transportation in the Canadian scene for a good
many years.

20 A. I will even go further, Mr. Sinclair,
21 being as this is a morning for confession, My
22 father was superintendent of transportation on the
23 old Grand Trunk railway.

24 Q. This merely adds to the fact, Mr. Harold,
25 that your environment and your life's work has been
26 looking at transportation from the Canadian scene
27 and as a Canadian, and you have emphasized the Canadian
28 aspects of your approach in your presentation;
correct?

29 A. That is true.
30



1
2
3 Q. I have one or two questions of principle
4 that I think possibly if you would assist me that
5 the Commission would be interested in your views in
6 regard to them.

7 Is it correct to say that the Province of
8 Quebec looks upon railway transportation as essential
9 to the economic well-being of Canada?

10 A. Definitely

11 Q. Is it also the Province of Quebec's
12 position that to provide essential transportation
13 requires that the railways be financially sound?

14 A. Yes.

15 Q. The position of the Province of Quebec,
16 I take it, is that rates for the movements of all
17 segments of freight traffic should be just and reasonable?

18 A. Yes.

19 Q. And I think you have also made it
20 clear, and possibly I could use Mr. Frawley's words
21 of yesterday, that any sort of rate in the rate
22 structure must be compensatory or it should not be
23 allowed to remain there?

24 A. That is true.

25 Q. Now, basic to the presentation of
26 Quebec and a basic principle, I think, is expressed
27 in this way in regard to policy and the application
28 of policy in regard to transportation, and I am going
29 to quote your brief:

30 "...should heed the laws of economics,
supply of and demand for transportation
service cost and prices of transportation



1
2
3 service, investment in transportation
4 and a reasonable return thereon"?

5 A. That is true.

6 Q. Now, Mr. Harold, for a moment may we
7 turn to passenger services, and I think that you have
8 made it clear in answer to my friend that your province
9 would not be in favour of subsidies for passenger
10 transportation?

11 A. That is a general basic rule for all
12 transportation.

13 Q. Then, I take it you would agree with
14 the statement of the Turgeon Commission, and I am
15 going to quote from page 137 of the Turgeon report
16 on transportation, and where I find these words which
17 I will quote to you:

18 "The Commission does not subscribe to
19 the view that the federal government
20 should subsidize passenger traffic"?

21 A. I certainly do.

22 Q. Yesterday my friend Mr. Cooper asked
23 you a number of questions about commuter traffic. At
24 page 20812, you expressed the personal opinion
25 that you did not think that commuter service should
26 be subsidized?

27 A. That is true.

28 Q. Then, on page 20813, the next page,
29 you expressed the view:

30 "...and I feel that if I chose to live
to live outside the regular service
charge I should pay for it."



1
2
3 You were referring to outside of the service charge,
4 being outside the regular traction utility area, I
5 would take it?

6 A. That is true. I imagine that I am
7 not in the railway area for commuters'.

8 Q. And by that I take it you mean that
9 the users of the service should pay for it?

10 A. That is true.

11 Q. Now, Mr. Harold, while you are not a
12 railway commuter, from your experience you know
13 how vocal commuters can become concerning the cost of
14 moving daily to and from their place of business or
15 to and from the centre of the city?

16 A. You are speaking of my experience on
17 the Board?

18 Q. Yes?

19 A. That is true.

20 Q. Now, you also know, Mr. Harold, that
21 moving people from the outlying areas into a city
22 is expensive; that is, it is expensive whether the
23 provision for their movement is roadways and private
24 automobiles, buses, or railways?

25 A. Definitely.

26 Q. Mr. Harold, if municipalities were
27 required to expend large sums for capital maintenance
28 for the building of expressways to move commuters
29 in private automobiles, and such expense could be
30 lessened or not incurred at all through the
alternative of using rail transportation, in such
circumstances you would look upon payments made,



1
2
3 I take it, not as a subsidy, but as an alternative
4 use of public funds?

5 A. That is a very serious hypothetical
6 question, and I do not like to answer hypothetical
7 questions.

8 Q. Let me see, sir, if I can make it
9 a little more specific.

10 A. The reason, Mr. Sinclair, is that I
11 do not think that these expressways or other heavy
12 expenses on roadways or approaches are entirely due
13 to commuters.
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30



1
2 Q. Of course not, Mr. Harold, I would
3 most certainly agree with you that they are not solely
4 caused by commuters. However, the congestion caused
5 by the commuter traffic and the rush hour peaks do
6 put tremendous burden on the highways entering into
7 the cities and Montreal is an extremely good example
8 and the Lakeshore and Metropolitan boulevard are
9 outstanding in that regard.

10 A. But to remove the public service
11 from the roadways it would still leave the private
12 automobile which is the greatest contributor to the
13 congestion.

14 Q. That is exactly my point; it was
15 the private movement of automobiles rather than the
16 use of public transportation that was causing this
17 congestion in bringing about demands for expenditures
18 of huge capital amounts and the following maintenance
19 charges to enable these numerous private automobiles
20 to move into these metropolitan centers.

21 A. That is true, largely.

22 Q. Now, therefore, I wondered if
23 you recall the Gordon Commission, the final report
24 on Canada's economic prospects which was published
25 in 1957 -- it was dated 1957 and published, I think,
26 some months thereafter, published in April of 1958.
27 I think the report was in the hands of the government
28 for some months prior thereto and I have a reference
29 to this which I will read with you:

30 "... It seems reasonable to us that



1
2 if the provinces are willing to make
3 contributions for expressways, perhaps
4 they should also be ready to provide
5 assistance for rapid transit systems in
6 metropolitan areas. If our cities are
7 to prosper, the motor car must ceased
8 to be treated, in the words of Louis
9 Mumford, 'as the Sacred Cow of our Society'.
10 That is at page 290 of the final report
11 of the Gordon Commission.

12 Now, having that before you, Mr. Harold,
13 my question is this: when you wrote paragraph 363
14 and 364 of your submission to this Commission was the
15 thought of the Gordon Commission that we have had
16 before us one of the thoughts you had in mind? To
17 put it another way and in the form of a question: Mr.
18 Harold, is the approach of the Gordon Commission one of
19 the means of cooperation which the province of Quebec
20 would consider in dealing with commuter problems in
21 Montreal?

22 A. Mr. Sinclair, before answering that
23 I would like to preface my reply with the remark that
24 I do not think in my opinion that the Gordon Commission
25 meant that the commuter transportation system should
26 be subsidized in the sense of a differential on fares
27 but that the contribution towards the commuter system
28 could be very well handled in the manner in which it
29 has been handled in some American cities. Over there
30 they have a special part of the roadway given over to



1
2 the public service entirely where private automobiles
3 cannot encroach upon it and where the public transport
4 system is speeded up and of course the question of
5 the speed of the transits is most important. I
6 remember one road which was routed to the satisfaction
7 of our board in the city of Quebec where the speed,
8 the average speed of movement of the auto-bus could
9 be raised by about two miles an hour and in that
10 event the rather serious demand for an increase in
11 rate would not have been necessary.

12 Q. The point I had in mind, Mr. Harold,
13 was that commuter services are, as we have agreed,
14 expensive to provide and it may well be, I suggest
15 to you, that if the cost of providing ever becomes
16 a real burden on the commuters and if the municipalities
17 want additional services that cannot be paid for
18 without an unreasonable burden on the users, they
19 might make a payment like they do in a number of
20 cities in the United States to the bus or to the
21 railway system to provide that service as a service
22 of the municipality or the town or city of Pointe
23 Claire or Dorval or Mount Royal. Can you see any
24 difficulty in that regard?

25 A. Well, it is not looked on too
26 favourably. In fact, most municipalities are not
27 given that authority by the central authority in
28 view of the traffic which might result.

29 Q. Let us take it that the province of
30 Quebec instead of being required to build an expressway



1
2 were to build a tunnel through the mountain in
3 Montreal to handle the very large movement of commuters.
4 The province of Quebec might say yes to the established
5 carrier, and these would include the Provincial
6 Transport, Canadian National, Canadian Pacific and there
7 is one other whose name escapes me at the moment but
8 the province of Quebec will say to them, "We were
9 going to build this expressway to handle all these
10 private cars but we are going to take the interest
11 on the capital cost that would have gone into this
12 expressway and pay it on the basis of per head carried
13 so that the reduction of the rates that would otherwise
14 be applicable in commuter service would apply". Do
15 you not think that is what the Gordon Commission had
16 in mind?

17 A. Well, I think if it were in its
18 application to bus transport it would be a vicious
19 circle because if you are going to have rapid transit
20 you have to have the means to give that service and that
21 is a laneway set aside for rapid transit. It is
22 coming to that, definitely in certain parts of Canada
23 as it has come in certain cities in the United States.

24 Q. Well, let us take it and apply it to
25 railways. The railways provide a right-of-way, they
26 have a heavy investment in the right-of-way which has
27 an income tax burden attached to it and it also has
28 a property tax burden attached to it. Under those
29 circumstances and to assist the commuters to have lower
30 rates than would otherwise be applicable to pay for this



1
2 service, do you think the province, the Dominion
3 government and the municipalities involved could give
4 consideration to believing the commuters of the cost
5 associated with tax?

6 A. That was quite a long question,
7 Mr. Sinclair, but I gather that the intent is that the
8 railway would receive a subsidy of at least so much
9 per passenger moved on the commuter service to assist
10 in giving that cheaper service to these people who are
11 required to use the commuter service morning and night.
12 Am I right? Is that the intent of your question?

13 Q. I look upon it as an alternative use
14 of public funds. I suggest to you that it is an
15 alternative use of public funds instead of the
16 government, municipal, provincial and federal
17 extracting taxes.

18 A. My own personal opinion is public
19 funds should not be used for such a purpose. It is
20 putting an extra load on industry which is being
21 decentralized in order to assist in the cutting down
22 of these traffic problems morning and night. Why,
23 if an industry which has moved out of a centralized
24 area, why should it be forced to pay, through taxes,
25 assistance towards the individual who has chosen to
26 go out and live in these areas because of cheaper
27 rent and they continue to work in the central area.

28 Q. Could I ask you this question?
29 Why should the municipalities or the utilities that
30 are providing service be required to carry any burden



1
2 in moving people out to these industries that are
3 decentralizing in these large cities.

4 A. I do not claim they should.

5 Q. You left your case completely on the
6 basis that the user should pay the cost of this
7 service?

8 A. Right. I know of certain industries
9 in Montreal who are themselves, on a temporary basis,
10 providing service to their employees from certain points
11 where the public service stops or passes the land
12 which is within the ordinary route. They give that
13 service free of charge to their employees.

14 Q. It is refreshing to have someone
15 here who is not afraid to put the position where
16 economics requires it to stand. That is, if the users
17 are not prepared to pay for the cost of the service
18 then the service should be withdrawn.

19 A. Or the rate increased after careful
20 consideration by a controlling body as to whether the
21 increase is deserving.

22 Q. Not only do I think that is necessary,
23 I think it is desirable because this has the effect
24 of satisfying the people that the matter has been looked
25 into and carefully considered. That is one of the
26 reasons you added that, I take it?

27 A. And also it gives an opportunity to
28 provide alternatives which might or might not have to
29 but usually might have the effect of lessening the
30 impact of the increase.



1
2 Q. Now, would you assume with me that
3 a transportation undertaking is required in the national
4 interest to move from one quarter to one-third of its
5 total business at a rate which is much below its
6 proper place in the freight rate structure and which
7 places, because of the national interest, a burden on
8 the transportation undertaking. In such circumstances
9 my question to you is: would you apply the same
10 principles you stated yesterday with respect to the
11 branch lines which was in answer to my friend Mr.
12 Cooper? I would refer you to page 20813 of the
13 transcript and perhaps I can read it to you:

14 "

15 My own opinion is -- and it is a
16 personal opinion entirely -- that if a
17 railway, or any company for that matter,
18 is forced to build a branch line that is
19 on its face unprofitable, it is entitled
20 to receive some undertaking, temporary
21 or otherwise, in the form of a subsidy
22 until the traffic takes care of the cost.
23 Presumably you would not ask for that
24 service except in the hopes of increased
25 traffic, and there is an interim period
26 where the traffic may not be sufficient,
27 and before a railway or a bus or a truck
28 should be forced to give that service
29 there should be some undertaking if he so
30 demands. Shall I put it this way: that
it is the government's obligation rather



1
2 than a private industry."

3 And now, with that, my question to you
4 is, would you apply that principle if in the national
5 interest transportation undertaking was required to
6 carry from one-quarter to one-third of its business
7 at a rate which was below its proper place in the
8 freight rate structure and as a result of that national
9 interest was required to move this traffic and in so
10 doing created a burden on the transportation undertaking.

11 A. You are suggesting -- I used the
12 word "forced" -- you are suggesting that if the
13 government forced the railway or a transportation
14 industry or enterprise to carry freight or passengers
15 at less than cost that there should be some temporary
16 arrangement made by the government to pay for that
17 service until such time that the traffic will take
18 care of it?

19 Q. Yes.

20 A. I say it applies. In fact, I was
21 speaking towards transportation of freight when I made
22 that answer yesterday but I insist the word "forced"
23 -- sometimes the low rates are not imposed by
24 government or the controlling body, they are put in
25 the tariff by the transportation enterprise in a
26 misguided attempt to compete with a media which has
27 more advantages.

28 Q. The one I have in mind, there is
29 no question about force .

30 A. I thought you had something in mind.



1
2 Q. Perhaps if I brought to your
3 attention your recommendation 12 of the brief:

4 "If, in the light of the evidence, this
5 Royal Commission concludes that an
6 increase in the Crowsnest Pass Rates
7 is justified, such increase should not
8 be reflected in the sale price of grain,
9 and hence, a subsidy from the federal
10 government would be indicated."

11 My question is this: that properly
12 reflects, does it not, the opinion of the government
13 which you are representing here in the box?

14 A. I would prefer to go to the French
15 text.

16 Q. Now, I will let you pronounce it
17 but I think that in regard to that paragraph it is
18 the same.

19 A. I'm sure my pronunciation is
20 equally as impossible as yours.

21 Q. Now, my question is: in regard to
22 that opinion expressed, that is the opinion of the
23 province and of the government of Quebec?

24 A. That in such event there should be
25 government support in order to meet the difference
26 between the cost of the rate imposed on the
27 transportation enterprise. But, my own personal
28 opinion is that in the movement of such a commodity
29 such a subsidy should be open to all transportation
30 enterprise on a competitive basis.



1
2
3 Q. I will discuss that with you in just
4 a second. I want to continue on with the French
5 version of recommendation No. 12. Would you
6 look at the second last paragraph of the French
7 version on Recommendation No. 12, and so I may have
8 it here, and with an expert in the stand, may I
9 translate it, and I would be very happy, indeed
10 I would be happy with any corrections you wish to
11 make:

12 "Considering the very recent modernization
13 of the railways, did they have time to
14 estimate the monetary savings resulting?"
15 -- that is the question raised, and then it goes on,
16 "It is perhaps open to consider whether
17 the request to the railways for an
18 increase in the rates -- is it premature?"

19 A. I would say that is very good.

20 Q. What is very good -- the translation or
21 the statement

22 A. The translation.

23 Q. Then, Mr. Harold, my question is this:
24 what Quebec is saying in the paragraph we have just
25 read is this, that this Commission should consider
26 whether the cost of railway transportation in the
27 future is going to decrease or, putting it another
28 way, that this Commission should give consideration
29 to whether modernization is going to more than offset
30 increasing costs of labour and material and result in
a true or a real reduction in transportation costs?

A. I would consider that the Quebec attitude



1
2
3 is as follows: Quebec has taken seriously the
4 remarks made by the railways that they are modernizing
5 and are continuing to modernize their equipment, and
6 by so doing they are bringing down the cost of the
7 service to the public, and for that reason is it
8 possible at this time to determine that the amount
9 requested by the railways is necessary, or whether
10 a lesser amount or any amount at all. Probably
11 the paragraph might be taken as a wish of the Quebec
12 government that there should be some caution in
13 proceeding too fast on granting an additional subsidy
14 of the amount required. It might be less. It might
15 be nothing, depending on what indications the railways
16 can give of the extent of the savings which their
17 improvement in equipment and operational methods
18 have brought.

19 Q. The Government of the Province of
20 Quebec would be satisfied, I take it, in light of
21 the very careful consideration being given by this
22 Commission and its highly competent technical staff
23 with the consideration and finding of this Commission?

24 A. I believe so. Everything I have
25 heard expresses satisfaction with this Commission.

26 Q. And therefore -- you said it may be
27 less than the railways ask for -- you would also be
28 happy if this determination of the Commission resulted
29 in it being more than the railways asked for, on the
30 projection of costs of transportation over the next
few years? Say this Commission projected into
the next few years ---



1
2
3 A. I think this statement that we will
4 be happy with the opinion of this Commission answers
5 it fully.

6 Q. Now, as a transportation specialist ---

7 A. On trucking only, Mr. Sinclair.

8 Q. A specialist on trucking but with
9 some knowledge of other elements of transportation,
10 I would ask you if you could tell this Commission,
11 notwithstanding the modernization and technology
12 and the application of technology that has taken
13 place in the last few years, what transportation
14 medium has been able through that modernization and
15 application of technology to meet increased costs
16 of labour and materials and to reduce the cost of
17 transportation? Trucking?

18 A. To some extent, yes.

19 Q. Have they not had to have general
20 increases in rates to meet increased costs in the
21 last few years?

22 A. Only in certain specific instances.
23 Where the traffic is heavy, for instance, on the
24 Toronto-Montreal run they are still functioning
25 and yet that rate is much depressed in relation
26 to the rate of, say, ten years ago.

27 Q. Oh, that may be so, but it is higher
28 than it once was, I suggest to you, in the post
29 war period. Let us take 1950: it either has
30 different minimum characteristics to force a heavier
loading...

A. That is the improvement in the
equipment.



1
2
3 Q. or it requires certain shipping
4 conditions to be attached; that the real cost of
5 transportation between Toronto and Montreal, unless
6 you can meet some special conditions, is higher
7 now than it was in 1950?

8 A. I would not want to go that far.

9 Q. Is there not minimum charges on
10 shipments? Let us take that as an example in the
11 trucking industry: have they increased?

12 A. The minimum charges have increased.

13 Q. And have the general class rates
14 increased throughout the Province of Quebec since 1950?

15 A. Yes, but are you implying most freight
16 moves by class rates?

17 Q. No, I am not implying most freight
18 moves by any specific rate. What I am implying is
19 that increased costs have made it necessary to raise
20 the rates?

21 A. On class and minimum rates yes,
22 because of the increase in labour and the fact that
23 the increase in weight limits and equipment does not
24 apply to the same extent in the movement of small
25 shipments.

26 Q. So that, Mr. Harold, what you have to
27 look for is a very rapid and marked technological change;
28 that is, the application of diesel tractors and
29 heavier built roads enabling heavier loads to be
30 carried to enable costs to come down?

A. In a volume movement.



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

Q. Yes.

A. Those technological changes would have a more immediate impact than on smaller shipments, and you are speaking of the grain rates which is an extremely heavy volume movement.

Q. And to enable those trucks, or to enable any transport industry to carry a volume movement and heavy tonnage requires the roadbed to reflect the carrying capacity?

A. That is true.

Q. And to do that costs money?

A. That is true.

Q. And requires more expensive equipment?

A. That is true, and I presume that the return on those increased expenses is less than the advantages which they expect to obtain from it.

Q. What you are saying is this, that what you have to look at is the application of technology in the foreseeable future and then arrange for a review to see whether there have been any changes?

A. That is true.

Q. And that is what you had in mind?

A. With a word of caution that maybe with these changes the amount you ask is too large, or it may not be necessary at the moment until the real impact of these changes has been assessed.

Q. Or, another way of putting it, I suggest to you, to meet the paragraph, would be to have the matter reviewed by the Board of Transport



1
2
3 Commissioners to see if there were any marked changes
4 in a period of two or three years from the time
5 it comes into force?

6 A. That could be one answer.

7 Q. Yesterday Mr. Hume referred you to
8 paragraph 499 which is at page 122 of your brief,
9 and maybe I should read that first. It reads as
10 follows:

11 "499. We have an open mind as to
12 what the best solution to this problem is.
13 We would be prepared to consider any
14 reasonable and realistic proposals
15 which would take into account historical
16 facts and provincial rights and would
17 make good economic sense and be equitable
18 to all parties concerned."

19 Mr. Hume went on at page 20846 of the
20 transcript of yesterday, and so that I put it
21 exactly I should possibly read it to you:

22 "May I ask you whether or not those
23 words 'equitable to all parties' indicate
24 that if any subsidies are to be paid
25 they should be paid in such a way that
26 all transportation media can have
27 an opportunity in connection with
28 those services?

29 A. I can't answer for the province, but
30 for myself I subscribe to that."

My question is, in subscribing to that
suggest of Mr. Hume you would couple it, I take it,



1
2
3 that all transportation media if it was to share
4 should be under the same service obligations?

5 A. That I agree with thoroughly.

6 Q. As to equipment and time and things
7 like that?

8 A. Well, equipment within their financial means.

9 Q. You see, Mr. Harold, there are some
10 rather peculiar situations existing about the
11 handling of grain in western Canada: for instance,
12 cars of grain can go to the Lakehead and stand
13 there for as long as 93 days without any demurrage
14 being assessable on them?

15 A. Then, the same government regulations
16 should apply to trucks if they wish to take advantage
17 of that traffic.

18 Q. Another example of a special provision
19 is that by direction of the regulatory authority the
20 movement of grain can have first priority and all
21 equipment of the company can be channeled into that
22 service and given priority over other shipments?

23 A. If a trucking enterprise wished to
24 enter into that traffic I think that they should be
25 forced to meet the same obligations. I have always
26 been a thorough believer in the necessity of
27 equal responsibilities and obligations.

28 Q. Thank you, Mr. Harold. Another
29 point is this: I take it that it is basic to the
30 submission of the Province of Quebec that the rate
structure should not be used as a method of providing
assistance except in very special circumstances and



1
2
3 where there is no other really practical way of
4 providing that assistance?

5 A. That I would say is a concise statement
6 of our position.

7 Q. Now, on the matter of subsidy it is
8 clearly the position of the Province of Quebec that
9 distance per se should not be a matter of
10 subsidization on an overall basis?

11 A. That is true.

12 Q. And that, further, if a region or an
13 industrial complex of a region needs assistance, that
14 should be extended other than through the freight rate
15 structure if there is a practical way of doing that?

16 A. That is true, and it is the decision of
17 the government that is in charge of that particular phase
18 of transport.

19 Q. With regard to the Maritime Freight Rates
20 Act you suggested yesterday in your answer that the
21 truckers had some complaint about this disturbed balance
22 in view of the fact it was open to railway shipments
23 but not open to highway shipments -- the subsidy provision
24 under the act -- and that this was a disadvantage.
25 Do you remember that?

26 A. I recall it, but I believe that my
27 remarks were in relation to the suggestion of the
28 Maritime Association that because of truck competition
29 in the central area rates had been lowered whereas
30 because of the lack of similar truck competition in
the eastern area or the eastern and central area
the same reduction had not been effected.



1
2
3 Q. Really, you were directing this matter
4 about making it available to all transportation media
5 in so far as the Maritime Transport Act was concerned
6 to a higher subsidization than now existed?

7 A. Exactly. It is again the same, but a
8 stronger word of caution on the Crownsnest Pass, that
9 before any increase of the present large subvention
10 of 30 per cent is made every effort should be made
11 to consider is there any means of obtaining more
12 satisfaction for the Maritime Association by other
13 means, such as truck competition, and with such a
14 large increase already granted on the subsidy my own
15 personal opinion is that before anything is done it
16 should be done on a particular basis of a commodity or
17 an industry where taxation, cost of raw material,
18 wage rates, should be considered as well as
19 transportation charges.

20 Q. Including, I would take it, the effect
21 of competitors in the same line of business ---

22 A. In other areas.

23 Q. Yes?

24 A. I meant an examination in relation to the
25 same charges in other areas in the central region.

26 --- Short recess.
27
28
29
30



1
2 THE CHAIRMAN: Order, please.

3 MR. SINCLAIR: Q. Mr. Harold, just one
4 other point before I speak to you about trucking, and
5 that is the proposal of the province in regard to
6 application of percentage increases to agreed charge
7 rates. It is expressed this way in recommendation 13:

8 "That the necessary legislation be passed
9 to compel the railways to readjust agreed
10 charges, such readjustment to be equal
11 to the percentage of the horizontal
12 increase."

13 Now, Mr. Harold, Canadian Pacific has an
14 agreed charge for the movement of a commodity between
15 Montreal and Vancouver, and the rate is based on the
16 rate from Montreal to Rouse's Point, and the American
17 rates from Rouse's Point to Vancouver; the agreed charge
18 to meet the United States railroad competition as well
19 as water competition via the Panama Canal which can
20 move in foreign bottoms.

21 If your recommendation was law and the
22 agreed charge rate was increased, and the railways
23 lost the traffic to American roads or to foreign bottom
24 shipping, what advantage would there be in that to
25 Canada or the Canadian transportation industry?

26 A. I think the attitude of the Quebec
27 government in that respect is better explained in the
28 French version. On page 73, there is an explanatory
29 paragraph before the recommendation. The agreed charges
30 and the statutory rates are not subject to this increase;



1
2 nevertheless, the railways have informed the Commission
3 that the readjustment of the rates, agreed rates, are
4 made as soon as the contract permits. But it appears
5 that this is left to their own free will. There is
6 there a danger of discrimination.

7 Q. Yes. But, Mr. Harold, in regard to
8 increases in rates generally under a general revenue
9 case these are authorizations to the railways; they
10 are not requirements. So, therefore, under a general
11 increase, under class or normal commodity rates, specific
12 commodity rates or competitive rates, the authorization
13 for the increase given by the board is permissive that
14 the railways are left free to apply it, or apply part
15 of it, or to apply none of it, depending upon the
16 requirements of maintaining the business, subject to
17 this: the rates must be compensatory in every respect.

18 A. Well, I am going to speak for myself.
19 Maybe one of the reasons why I dislike so intensely
20 horizontal increases is that freedom of the railways,
21 that they apply it or not as they see fit. In other
22 words, it increases the discrimination or any differences
23 at the free will, shall we say, of the railways.

24 Q. It is not a question, I suggest to
25 you, Mr. Harold, of free will. It may well be that
26 the traffic will dry up; it will not move at that rate,
27 and yet the rate is making a substantial contribution,
28 we will say, even over total cost and certainly in
29 many, many cases it has been proved a very substantial
30 contribution over variable costs, and yet the traffic will



1
2 dry up. So it is an advantage to all shippers and to
3 the railways to keep that traffic moving.

4 Now, under your plan, if it was mandatory,
5 the effect would be that the traffic would not move.
6 Now, who can gain under those type of circumstances?

7 A. Well, it is also hypothetical: will
8 there be that loss. Would it not be better to have
9 it mandatory and then in the light of events make the
10 necessary changes?

11 Q. Oh, I see. What you are suggesting
12 is that it is mandatory subject to an application
13 being made for an exception in special circumstances?

14 A. Yes.

15 Q. Oh. And what you are saying is that
16 the rates would be applied and then, if it was found
17 that circumstances required some other treatment, that
18 an application be made to the regulatory tribunal to
19 adjust?

20 A. How can the regulatory tribunal make
21 a decision on a horizontal increase if they do not
22 know or have some idea of what percentage of those
23 increases are going to be put into effect; what amount
24 of traffic will be affected?

25 Q. Oh, I think we are at cross purposes,
26 Mr. Harold, in that the Board of Transport Commissioners
27 on general revenue cases require evidence to be given
28 in that regard.

29 A. Not as to the particular traffic on
30 which the increases will be affected.



1
2 Q. Not on the particular traffic, but
3 on the commodity groups: normal, competitive, agreed
4 charge, and so on.

5 A. But even within those groups there
6 is a great deal of discretion left to the railways
7 which could become an abuse.

8 Q. That is right. I see that it could
9 become an abuse, but the key of it surely is, Mr.
10 Harold, that the railways in their own self-interest
11 are going to maximize their revenues, and if the
12 traffic will move freely at the higher rates, they are
13 not going to not apply the increase.

14 A. There are today other factors which
15 were not present thirty years ago, and one is the factor
16 of competition, and it may be that the refusal to put
17 into effect this increase will be in the sole discretion
18 of the railway, taken against that if there is
19 competition, even though the competitor might and does
20 feel, I will say, does feel that an increase is needed.

21 Q. Yes. But, Mr. Harold, that has been
22 thought of in railway rate making by the fact that
23 in regard to a competitive rate or in regard to an
24 agreed charge, if revenue is not being maximized by
25 the rates that is in effect, appropriate procedures
26 are open to complaint and action being taken to offset
27 just the very point that you have in mind. Did you
28 know that?

29 A. Action by whom?

30 Q. Anyone that wants to complain; any



1
2 shipper.

3 A. Any shipper?

4 Q. Yes.

5 A. But what I am saying is that if a
6 shipper enjoys a competitive advantage because of the
7 nature of the traffic, naturally he will not complain
8 if there is no increase; whereas, that traffic possibly
9 from the opinion of a regulatory authority should bear
10 an increase the same as other traffic, because if you
11 want to obtain a certain amount it has got to come, if
12 it does not come from that traffic in part, it has got
13 to come wholly from other traffic.

14 Q. Quite so.

15 A. And because there is, I will put it
16 bluntly, traffic competition, you might say we will
17 not increase it, because that might give an advantage
18 to trucks, even though that traffic by all gauges bears
19 its proportion of the increased cost.

20 Q. Quite so, Mr. Harold, and that is why
21 under railway legislation, and to take care of that
22 situation, I suggest to you there is wide power for
23 the Board to investigate, to initiate rate enquiries
24 and to ask the railways to show why this rate is at
25 this level rather than that. Does that not look after
26 the problem you have in mind?

27 A. The problem would be lessened if
28 those complaints could come from the competitor as well
29 as from the shipper.

30 Q. It might be lessened, Mr. Harold,



1
2 but the Board of Transport Commissioners with their
3 powers and with their long tradition of service in the
4 public interest surely can be relied on to take action
5 if they think the railways are mis-using any powers
6 they have with regard to the fixing of rates.

7 A. If I recall they have ruled that
8 under the Act the trucking enterprises have not the
9 right to make the complaints before them.

10 Q. That is right. They have held that
11 they have not the right. They have listened to their
12 representations, and the Board has, notwithstanding
13 the fact that they have not got the right to initiate,
14 the Board has carried on inquiries on their own behalf.
15 So, it may be that what is really being done does meet
16 the situation. You would agree?

17 A. No, I will not go quite that far
18 as agreeing.

19 Q. But, in any event, in regard to this
20 agreed charge suggestion of yours, it has in mind in
21 regard to this legislative change that there would be
22 exceptions open under special circumstances if it was
23 found to be necessary?

24 A. Definitely.

25 Q. Now, Mr. Harold, in view of your
26 long association with trucking and --

27 A. Pardon me, Mr. Sinclair. I am not
28 asking for any special privilege of the trucking
29 fraternity, but as you know we do allow the railways
30 to come before our Board. Our act permits it, and



1
2 I think similar legislation should be applicable in
3 the Federal Act as well as in the Provincial Acts.

4 Q. Well, Mr. Harold, I want to turn to
5 this subject, and this is the question of trucking
6 generally and the railway entry into it. This is my
7 last point with you.

8 Before I ask you these few questions that
9 I have, may I say to the Commission this, that it is
10 the experience of Canadian Pacific that Mr. Harold's
11 administration on the legislation of the province of
12 Quebec in regard to the control of trucking is of the
13 highest order in our experience in Canada, and we have
14 really no complaint about it except one, and that is
15 the terribly, terribly parsimonious attitude of Mr.
16 Harold and his Board in regard to the issue of permits
17 to Canadian Pacific.

18 A. That is probably, Mr. Chairman, due
19 to my Scotch ancestry and the close relation between
20 the French and the Scotch.

21 THE CHAIRMAN: I can sympathize.

22 MR. SINCLAIR: Q. And I think, Mr.
23 Harold, that your policy is enunciated in your brief
24 very clearly in a number of places, and I wonder if I
25 could just put the principle as I see it together from
26 three extracts and ask you if this does express it.
27 I read first from a part of 302 on page 81, where I
28 find this:

29 "We are against the railways acquiring
30 a dominant or near-monopoly position in



1
2 the trucking industry at the expense
3 of independent truckers and to the
4 detriment of the interests of the public
5 at large."

6 Then, at paragraph 307, page 82:

7 "What we are after is a method which will
8 assist us in achieving a position of
9 balance between the needs of the railways
10 for greater efficiency and flexibility
11 and the requirements of the public
12 interest of not allowing the compensation
13 of transportation facilities in the hands
14 of two large transportation companies
15 -- the C.N.R. and C.P.R."

16 And then at the top of page 83, paragraph

17 308:

18 "The answer to this problem in our
19 opinion is adequate safeguards of a
20 regulatory and administrative nature,
21 which will make it possible to assure
22 a continuous review of changing
23 circumstances and to examine each
24 transaction involving the acquisition
25 of independent trucking companies or
26 extension of trucking services by
27 trucking companies owned by the
28 railways."

29 Now, in those extracts that I have taken
30 and put together is the policy of the government in



1
2 regard to railway entry, I take it, in the use of
3 trucking?

4 A. Yes, and not only railway but what
5 I term large system enterprises.

6 Q. Yes.

7 A. The same basic rules are applicable.

8 Q. Yes. Now, let me give you an example
9 of a movement by piggyback, Mr. Harold, from Winnipeg,
10 Canadian Pacific trailer, destined Knowlton, Quebec.

11 A. Are you the consignee?

12 Q. The consignee -- all right, we will
13 call it Sinclair's Duck Farm.

14 A. Well, that is where you live, and
15 have you ducks?

16 Q. No, I have not got ducks; somebody
17 else has ducks.

18 We will call it -- the consignee is
19 Sinclair's Duck Farm -- both the shippers and
20 consignees, and I have entrusted that
21 movement on Canadian Pacific, and they moved it by
22 piggyback. And, as you know, Mr. Harold, there is
23 very restricted train service on Canadian Pacific
24 between Montreal and Knowlton; very little business
25 moving in that area.

26 Now, the flexible, efficient, economic
27 way of moving that shipment, I suggest, is piggyback,
28 to Montreal and road beyond.

29 Under those circumstances, Canadian
30 Pacific is faced with these alternatives: (1) of



1
2 building a piggyback ramp at Knowlton and making the
3 deliveries to the Sinclair Duck Farm. That is open to
4 it.

5 A. If there is sufficient traffic.

6 Q. If there is sufficient traffic. Or,
7 the other alternative to them is to unload it at
8 Montreal and apply to your Board for a permit to operate
9 over the highway to Knowlton, Quebec. That is open to
10 them?

11 A. Yes.

12
13
14
15
16
17
18
19 -
20
21
22 -
23
24
25 =
26
27
28
29
30



1
2
3 Q. By the granting of that permit the
4 cost of transportation, the service being offered by
5 Canadian Pacific to Sinclair Duck Farms Limited,
6 is improved and it is in accordance with the principles
7 that we all have followed, correct?

8 A. Yes.

9 Q. Now, you may take another example, Mr.
10 Harold: a shipment moves from Toronto, Ontario to
11 Drummondville and Canadian Pacific is competing for the
12 business with Kingsway, Canadian Steamship Lines.
13 Now, Canadian Pacific would move out from Toronto to
14 Montreal by piggy-back and on the next car would be
15 Kingsway with their piggy-back. But, when they got
16 it to Montreal, Canadian Pacific is left with the
17 alternative of piggy-backing it the short distance
18 to Drummondville or applying for a license to compete
19 with C.S.L. Kingsway over the highways of Quebec
20 between Montreal and Drummondville.

21 A. Or there is another alternative.

22 Q. The third alternative that you have in
23 mind, I take it, is to enter into a contract with
24 somebody or move it by boxcar.

25 A. When you say "contract", it is a form
26 of agreement which must be filed with the Board
27 covering every change of equipment.

28 Q. You mean I could ask Kingsway to haul
29 it down there?

30 A. You could ask in Drummondville three
or four other operators the same way as ten or eleven
of the Toronto or Montreal operators -- let me put it
this way to clarify it: there are approximately



1
2
3 twelve what I call general merchandise operators
4 operating between Toronto and Montreal. These people
5 all have transportation permits to use piggy-back of
6 the Canadian National or Canadian Pacific, either
7 of the railways. Kingsway -- I am not sure that
8 Smiths go there.

9 MR. SINCLAIR: No, I do not think so.

10 Q. Kingsway does go there, Direct Winters
11 might go there, I am not sure. But, all the other
12 nine or ten operators do not go to Drummondville so
13 they have their clientele in Toronto, they get a load
14 by piggy-back, they put it on the piggy-back service
15 of either of the railways, they take it off at Montreal
16 and they transfer the trailer to any one of the services
17 going to Drummondville. I would suggest that the
18 one will not get the right would be Kingsway, that they
19 would be the lone wolf on that line.

20 Q. But the distinction between that and the
21 Canadian Pacific is that Canadian Pacific does provide
22 service now between Toronto and Drummondville by rail.

23 A. Mr. Sinclair, is not your suggestion
24 that wherever the railway gives service by rail that
25 if that rail service or the traffic on it is not
26 sufficient to provide ramps for piggy-back that our
27 Board could, by that mere fact, upset all the present
28 situations and grant a permit to the Canadian Pacific
29 or the Canadian National on the mere proof that they
30 are giving a rail service?

Q. Not in that circumstance alone, of course
not. My suggestion to you would be this, that the



1
2
3 railways having provided a service from origin to
4 destination should, I suggest to you, have that
5 circumstance recognized and be enabled to have the
6 flexibility of combining rail and highway to reduce the
7 economic cost of transportation. It is not an answer
8 to say that somebody else has to interline because
9 that other person who had interlining was never giving
10 origin to destination service. It is a special
11 circumstance that puts the railway in a different
12 position than the suggestion you made to me about
13 other operators between Toronto and Drummondville.
14 That is why I took Kingsway because Kingsway were in the
15 same position as the railways having origin and
16 destination service, Toronto to Drummondville. My
17 position was that we were equalizing fairly the
18 competition between two large transportation organizations,
19 C.S.L. and C.P. This would be the circumstance. I
20 am not asking for a decision, what I am asking is, these
21 would be circumstances which would be taken in account
22 or should be taken into account in dealing with the
23 merits of any individual application by a railway.

24 A. I was afraid from your attitude that
25 you were asking for more than mere consideration.

26 Q. Consideration, as far as I am concerned,
27 of the fact leads to a determination on the true
28 merits and that is the position I am in. But, those
29 are circumstances I have put to you that are worthy
30 of consideration in respect to railways.

A. Well, you took Kingsway and they do not
go, or at least their company, the C.S.L. does not



1
2
3 give a service between Montreal and Toronto during the
4 months of December, January, February and March.

5 Would you ask for a difference in that case that your
6 permit would be only for eight months of the year.

7 Q. Well, unfortunately I might ask for
8 it but the people that they bought it from were
9 providing highway services.

10 A. Yes, but they bought out Kingsway and
11 giving the service from Drummondville to Montreal is
12 not competitive with the steamship service because
13 the steamships do not call at Drummondville.

14 Q. Of course, Mr. Harold, my point is
15 this; that in view of the basic principle of Quebec
16 in transportation you must heed the law of economics.
17 I am suggesting to you on railway entry into the
18 trucking field you must look at circumstances and
19 give them consideration and basically make sure that
20 the railways are not, as you have put it, going to
21 dominate or become the monopoly in any transportation
22 area.

23 A. Or get favours which the highway industry
24 as a rule do not have.

25 Q. Unless there are special circumstances
26 justifying it.

27 A. Well, I have not heard of any yet.

28 Q. My point, Mr. Harold, is this: the
29 railway industry is required to operate with flexibility
30 and with economy and there may be circumstances that
with the cooperation and assistance of highway transport
boards that that could be furnished and these



1
2
3 circumstances, as Canadians interested in a sound
4 transportation industry, regulatory boards should give
5 some weight to.

6 A. I think they do but remember that
7 interchange and flexibility of interchange applies
8 equally to interchange between railway transportation
9 companies and an independent trucker just as much as
10 between two independent truckers. I believe the
11 situation is that about 60 per cent of traffic by
12 truck moves by trans-shipment and even of the
13 remaining 40 per cent there is a one line trans-
14 shipment from the pickup truck to the over the road
15 truck. If we ask the railways to interchange with
16 the operator on that route we are doing no more than
17 we are insisting on with the independent truckers.

18 Q. But it is not the policy of your board,
19 and I won't ask you to deal with this specifically,
20 but you are not advocating as a truck transportation
21 specialist that the regulation of railway owned trucks
22 should be circumvented to the extent that railway
23 transportation is going to be necessarily more
24 expensive than it need be?

25 A. Certainly not so that if you are using
26 the railway that you will be, when you so use it,
27 placed in this equally beneficial position as other
28 highway users.

29 MR. SINCLAIR: Thank you, Mr. Harold. I
30 wish to say on behalf of Canadian Pacific that
I have been in a number of proceedings in this room
and other places involving transportation matters and



1
2
3 this is the first time that a full submission has been
4 made by the Province of Quebec, at least, to my
5 knowledge. It is also the first time that we have
6 had the opportunity of asking Mr. Harold questions and
7 we do appreciate the work that has gone into this
8 and the very frank and responsive answers that have
9 been given by their spokesmen. Thank you very much.

10 A. I feel that I had better get a copy of
11 the transcript for future use because it is going to
12 be thrown at me.

13 MR. SMITH: Mr. Chairman, you have already
14 asked as to whether I intended to cross-examine Mr.
15 Harold and I said that I did not think so. However,
16 I was not here yesterday or the day before, and in
17 those circumstances I did not know exactly how the
18 case for the Province of Quebec was presented. There
19 are some questions that arose during the cross-
20 examination of my friend -- perhaps I should not call
21 it cross-examination, perhaps examination would be
22 better. -- these questions arose relating to the
23 Maritime Freight Rates Act. Now, I do not know
24 whether the questions which I propose to address
25 were to be directed to Mr. Harold or Mr. Dube but perhaps
26 in view of the fact that Mr. Harold has answered some
27 questions I might, with your permission, ask just
28 a few questions.

29 THE CHAIRMAN: Very well.

30 MR. SMITH: Mr. Fournier suggests that
Mr. Harold is the man to answer them.

MR. FOURNIER: If he does not answer them



1
2
3 Mr. Dube will answer and if nobody answers then
4 the brief will answer.

5 CROSS-EXAMINATION BY MR. SMITH:

6 Q. Mr. Harold, may I commend you for the
7 manner in which you have given your testimony. It
8 is really a treat to have someone like you give
9 evidence.

10 One of my concerns for many years has been
11 a statute known as the Maritimes Freight Rate Act
12 and I, therefore, propose to ask some questions
13 relating to your expressions of view in the submission.
14 As I take it now you are responsible for some of
15 these expressions. At page 135 of this submission
16 it is represented:

17 "That no change be made in the Maritime
18 Freight Rates Act, as proposed by the
19 Maritime Transportation Commission, since
20 such changes would disrupt the economic
21 equilibrium of the other provinces of
22 Canada."

23 I am a little bit concerned with what the
24 meaning of the expression "economic equilibrium of
25 the other provinces of Canada" is designed to convey.

26 A. The feeling, and it is quite strong,
27 is that with the present subsidy of 30 per cent, the
28 maximum of, shall we say, horizontal subsidies has
29 been reached, that in fact in some instances,
30 especially industries in other provinces are being
affected by these 20 per cent to 30 per cent.

A further general increase without a specific inquiry
into the industry or into the commodity effected
might be very serious for the economic situation.



1
2 Q. Is that just an expression of view
3 of what might happen, or what has happened?

4 A. In some cases we are advised that
5 it has already happened.

6 Q. Could you give any instance of that,
7 sir?

8 A. The only instance that has come to
9 my personal knowledge is that of the Canadian Sugar
10 who have complained bitterly, I believe, to the proper
11 authorities, and I think they have made a submission
12 to this Commission.

13 Q. That was not in relation to the
14 submission, as I understand it, of the Maritime
15 Transportation Commission. It was with respect to the
16 submission made by Mr. Hill of the Acadia Atlantic Sugar
17 Company.

18 A. That could be so.

19 Q. Do you recall Mr. Dickson's estimate
20 of the annual cost of putting into effect the proposal
21 of the Maritime Transportation Commission -- you did not
22 read the evidence?

23 A. No.

24 Q. May I tell you it was in the order
25 of about \$6½ million.

26 May I ask you this question, Mr. Harold:
27 did the Maritime Freight Rate Act when it was passed
28 in 1927 have the effect of disrupting the economic
29 equilibrium of the other provinces of Canada?

30 A. As far as my personal knowledge goes,



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

I do not believe so.

Q. May I ask you, did the increase in the 20% reduction to 30% on outward, westward movements made in 1957 have that effect?

A. I am told that there are certain industries which have been most adversely affected.

Q. Have you any personal knowledge of any such instance?

A. No, other than I have discussed the matter with the Canada Sugar Refinery.

Q. Have you any statement or knowledge as to the respective rates that were affected by the movement outward from the Maritimes -- the movements that you say have been affected?

A. Not personally, no.

Q. Could I ask you another question: there was another subsidy, the so called bridge subsidy. Are you familiar with that subsidy?

A. Not too familiar.

Q. You know of it?

A. I know of it.

Q. In the recommendation of the Turgeon Commission there was a \$7 million subvention to cover the so-called bridge; can you tell me if that subsidy had the effect of disrupting the economic equilibrium of the other provinces?

MR. FOURNIER: Mr. Chairman, we did not file any paper or discuss the bridge subsidy. I do not know if the witness is conversant with this bridge



1
2 subsidy.

3 THE WITNESS: Not sufficiently.

4 MR. FOURNIER: I do not want to raise an
5 argument, but I do not think the bridge subsidy is
6 comparable with the Maritime Freight Rate Act. One is
7 to cover a deserted area where there is no traffic.

8 THE CHAIRMAN: Well, the witness does not
9 know about the bridge subsidy.

10 MR. SMITH: I should think the witness
11 is here to speak on that subject, and I am merely
12 testing his statements in the submission.

13 MR. FOURNIER: The witness is speaking
14 on behalf of the province of Quebec, and he may have
15 his own personal views, but the province of Quebec has
16 not discussed the question of the bridge subsidy and
17 the witness does not have anything before him as to
18 what was the consensus of opinion of the province of
19 Quebec on that point.

20 THE CHAIRMAN: Only his own personal view.

21 MR. FOURNIER: Yes, and then he becomes
22 an expert of my friend Mr. Smith.

23 MR. SMITH: Well, I will not press the
24 question.

25 THE WITNESS: You do not want me as your
26 expert.

27 MR. SMITH: Well, it is not so much as
28 a rate expert, but an economic expert.

29 A. I am not sufficiently familiar with
30 the bridge subsidy.



1
2 Q. May I ask you if the proposals of
3 the railways with respect to the Crowsnest Pass Rates
4 have any such effect?

5 A. Not to the same degree because --
6 and this again is my personal opinion -- the rates of
7 the Crowsnest Pass are more to do with export trade
8 than domestic trade.

9 Q. You know from your reading and from
10 your knowledge that the enactment of the Maritime
11 Freight Rate Act was not designed for the purpose of
12 disrupting the economic equilibrium of the other
13 provinces, but was designed to correct a situation
14 which had arisen; is that not the situation?

15 A. That is the situation, and I feel
16 that the province of Quebec considers that the present
17 subsidy is ample to cover and meet that situation, and
18 if there should be the need for anything more it should
19 be on the basis of a particular industry or a particular
20 commodity after proof is submitted to a proper
21 investigator or proper authority to take up that
22 specific case.

23 Q. By that statement you also are
24 speaking of the original subsidy created by the
25 Maritime Freight Rate Act, with the additional subsidy,
26 the increase from 20% to 30% in the movement out
27 westward?

28 A. Yes, although that 30% has been
29 done it is of general application, and the province
30 of Quebec feels such general subsidies should stop



1
2 there and if there is to be any additional it should
3 only be after specific study covering all factors as
4 well as transportation charges.

5 Q. Would your position be this -- to
6 this degree: that even if it were demonstrated beyond
7 peradventure that the Maritime Freight Rate Act was
8 not giving the assistance and not achieving the purposes
9 for which it was designed that nothing should be done
10 -- that the Maritimes and the Atlantic provinces should
11 remain in the same position as they are now? What is
12 your position?

13 A. I feel it is beyond my view, but I
14 do consider this: that before any drastic -- and I
15 mean any change is made, by that -- they should be
16 given the opportunity to see what the trucks can do.

17 Q. You know that the proposal of the
18 Maritime Transportation Commission does consider the
19 situation with respect to trucks, and for the first
20 time in the history of freight rates they have suggested
21 that the trucks be the recipients of the subsidy, and
22 you in part agree with that, I understand?

23 A. I do. I am speaking personally because
24 I am not sure of the position of the province on that
25 matter.

26 Q. That is the additional subsidy, of
27 course?

28 A. Yes.

29 Q. What I suggest to you, Mr. Harold,
30 is that the proposal of the Commission for which I



1
2 Act is designed for the same purpose, mainly, to bring
3 the act up to date and preserve the position which the
4 act was designed to create. If we can demonstrate that
5 such assistance is required, has the province any
6 objection to our achieving some measure of relief?

7 A. That is a very hypothetical question
8 and I feel that in part the answer is found in
9 Quebec's submission on the personal income of the
10 various districts. If you will notice, since 1957 --
11 and that is since the 10% increase -- the personal
12 incomes of the Maritimes have increased more in
13 percentage than those of Quebec.

14 Q. I notice it was brought out in Mr.
15 Sinclair's examination, the statement made on page 122
16 of your submission in relation to another statute,
17 namely, the Crowsnest Pass provisions of the Railway
18 Act, and you said at that time that the government of
19 the province of Quebec recognizes that the Crowsnest
20 Pass Rates are a vital part of the Canadian freight
21 rate structure and there are strong historical, legal
22 economical and political reasons for the continuance
23 of those arrangements. Then you proceed to say:

24 "499. We have an open mind as to what
25 the best solution to this problem is.

26 We would be prepared to consider any
27 reasonable and realistic proposals which
28 would take into account historical facts
29 and provincial rights and would make
30 good economic sense and be equitable



1
2 to all parties concerned."

3 Do your remarks in respect of the Crowsnest
4 Pass Rate situation apply with equal force to the
5 Maritime provinces and the Atlantic provinces?

6 A. Yes.

7 Q. So, in other words, you are not as
8 a province taking the position that the Atlantic
9 provinces should have no relief if they can demonstrate
10 the need for relief?

11 A. The province of Quebec has never
12 taken that position with the Maritime provinces.

13 Q. I suppose, Mr. Harold, like many
14 other people you have read the various submissions
15 that have been filed with this Commission. I do not
16 know whether you waded through all of them, but at
17 least we put in a submission and it was rather a
18 lengthy one, and among other items was appendix IX
19 which contained quite a thesis on the economic position
20 of the Maritimes: did you read that?

21 A. I glanced at it.

22 Q. Well, at least you are familiar
23 with it?

24 A. Yes.

25 MR. SMITH: I thank you very much, sir.

26 THE CHAIRMAN: Have you any re-examination,
27 Mr. Fournier?

28 MR. FOURNIER: No, Mr. Chairman, I have
29 no re-examination.
30



1
2 BY COMMISSIONER BALCH:

3 Q. I have one not very important question,
4 Mr. Harold, but it might clarify something for the rest
5 of the Commission. You mention in your number 9
6 suggestion the general principle of bilingual staff
7 being employed at all levels of the administration,
8 and then you say: "As well as in the operations of
9 the railways". Are you familiar with the running trades
10 -- the brakeman and so forth, on the railways, as to
11 whether they are bilingual or not?

12 A. I would say in the province of Quebec,
13 from my own personal experience, if not 100% a large
14 percentage are bilingual.

15 Q. Yes, thank you very much.

16
17 BY COMMISSIONER GOBEIL:

18 Q. Being from the province of Quebec
19 I do not need to tell you I read with great interest
20 the brief submitted by the Quebec government, and I
21 wish to congratulate those who participated in it,
22 especially in view of the time they had available. I
23 think a very remarkable job has been done. As I did
24 not have a chance to read yesterday's transcript, I
25 hope you will bear with me if I ask some questions which
26 were asked yesterday.

27 A. Before that, may I join you in your
28 remarks about the submission, because I had little or
29 nothing to do with it. It is the work of Mr. Fournier,
30 Mr. Martineau and Mr. Dube almost -- well, I would say



1
2 entirely, as far as I am concerned.

3 Q. On page 78, paragraph 288, you mention
4 that the situation in the last decade has changed a
5 great deal, and you seem to be afraid there may be a
6 monopolistic position developed. Do you feel there is
7 really a danger for the independent trucker of such
8 a monopolistic position?

9 A. I discussed that in some measure
10 yesterday, and I applied my remarks not only to railway
11 participation but also to what we call large system
12 participation; for instance, at many hearings we will
13 find that support is obtained for what we consider are
14 rather exaggerated requests of large system operators
15 for additional rights from shippers who are not
16 properly equipped with loading features. They probably
17 have only one loading door and they place that burden
18 on the truck enterprise and not on their own lack of
19 initiative, and they come up and give evidence to the
20 effect, "We want this operator to have further extensive
21 rights because we do not want more than two or three
22 truckers calling at our door. We are handicapped for
23 space", which means if we keep on granting these large
24 enterprises more and more rights eventually there will
25 be a very serious monopoly, and more and more the
26 individual trucker who gives the service to the people
27 will be eliminated from the field by reason of the
28 selfish shippers who are not willing to provide the
29 necessary loading facilities.

30 Q. In the same paragraph when you say



1
2 "Formulate effective policy to deal with that situation",
3 would you have in mind to see that the railways stay
4 out of the long distance trucking? Would that be
5 your effective policy?

6 A. I do not think I personally could
7 go that far because we have permitted the C.P.R. to
8 acquire long distance -- that is, inter-provincial and
9 international rights -- from the province in conjunction
10 with similar rights granted by other provinces, but
11 we have rejected the right of the railway to come into
12 competition with the smaller feeder systems -- that is,
13 the independent truckers -- within the province.

14
15
16 --- Luncheon adjournment --
17
18
19
20
21
22
23
24
25
26
27
28
29
30



-- On commencing at 2:00 p.m.

THE CHAIRMAN: Order, please. Dr. Gobeil?

MR. GOBEIL, Q: When we adjourned, Mr. Hardold, I had directed your attention to page 80, paragraph 294.

A. Yes.

Q. It is the thought you expressed that maybe the railways may forget their own interests and do not mind so much about the loss of rail if they can direct the operation of business to their own trucking firms.

My impression was that railways, as such, and trucking organizations, as such, even if they are subject to rail, whatever you may call it, were quite independent. Do you have some reason to believe that one is running the other?

A. Well, one is controlled by the other, and I think all this mentions is that there is a possibility. I do not think it infers that there is any practice of that nature.

Q. You have no specific instance, though, where this has been done?

A. No, up to the present, I would say from what I hear that the railway is fighting for business and their subsidiary trucking concern is also fighting for business.

Q. Like they were an independent organization?

A. So far as our record is in Quebec.

Q. On the page in paragraph 298 you say that in some cases independent truckers find it difficult



1
2
3 to compete with railways because the substantial
4 financial and managerial resources available to the
5 railways makes it possible for them to operate the
6 trucking business on a very large scale and to wait
7 for years for adequate returns on their investment.

8 Would you know of any case where trucking
9 organizations which are subsidiary of railways are
10 operating at rates which are lower than what you would
11 call the independent truckers?

12 A. No, other than this, that in the eastern
13 operation of Smith Transport the rates are the same,
14 necessarily so, because one trucker would not survive
15 with higher rates unless he wishes to, well, rate
16 himself out of the traffic. But the independent
17 trucker cannot give probably the same expensive
18 service to the Maritimes that the Smith operation
19 can do because of the traffic that this Smith operation
20 could get through the Saint John port from the C.P.R.
21 steamers through the winter months.

22 Q. The service might be better but the
23 rates are not lower?

24 A. Not at the moment, as far as I know.
25 Actually, the rates of all trucking companies to the
26 Maritimes, and that is the one point which I have
27 noticed, are filed through the same direct bureau and
28 have all subscribed to the same rate.

29 Q. May I direct your attention to the next
30 page.

31 A. Actually, Dr. Gobeil, if the independent
32 trucking company were put in an inferior position as
33



1
2
3 regards the rate and did complain to the Board we
4 would certainly investigate.

5 Q. You would correct the situation?

6 A. That is, our Board would, because we
7 do go into rates.

8 Q. In paragraph 300 you infer that the
9 policy of railway owned trucking companies are set
10 by railway management. This is a new one to me that the
11 policies of railway owned trucking companies are set by
12 railway management. There again, I thought
13 that railway management did not have anything to do
14 with what you may call railway owned trucking
15 companies?

16 A. Well, that is hard to say. They do
17 have representatives of those companies as directors,
18 and what interference that might make in the policy
19 is a matter which would only be opinion between the
20 subsidiary and the railway, but there is that
21 possibility. There always is.

22 Q. Yes, you are right. It is a
23 possibility, though there is no specific instance?

24 A. I think that is our complaint -- of
25 controlled companies from other companies.

26 Q. You are referring to Mr. Fleming's
27 budget -- the baby budget?

28 A. Well, I heard about it.

29 MR. SINCLAIR: They have specifics, though.

30 MR. GOBEIL, Q: On the same page, paragraph
302, when you say "with trucks serving as a supplement
to railway operations on a limited basis", do I



1
2
3 understand that this limited basis is what you refer
4 to later as city service, delivery service?

5 A. Yes, and as conditioned by the further
6 paragraph on page 83.

7 Q. Well, do you mean to say that nothing
8 but delivery service, inter-city service, should
9 be on the limited basis that you are talking about?

10 A. Well, maybe I should answer it this
11 way. Every trucking company under our general order
12 has a pickup and delivery area of five miles from
13 any named termini. For instance, Smith Transport,
14 a subsidiary of the C.P.R., with a named terminus
15 in Montreal has a right to pickup at any point within
16 five miles.

17 Now, any right to go further than that
18 must be by specific written permit issued by the
19 Board after a public hearing, and we claim the
20 railways should be subject to the same principles,
21 and the same obligation to obtain such permits as
22 any other trucking company. And I think that
23 is interpreted in paragraph 308 on page 83.

24 Q. On page 83, in paragraph 308 that
25 you just mentioned, you suggest that no transaction
26 involving the acquisition of independent trucking
27 companies should be done without examination by
28 some outside authority, if I understand well?

29 A. Well, actually, our permits are
30 issued subject to what is termed Article 35 of our
Act which requires the prior approval of the Board
before any transfer of control can be made. That



1
2
3 has been in our Act from its inception some thirty
4 years ago. It is not unusual for the Board to
5 refuse a transfer to large -- not only to railway
6 controlled companies -- but to large trucking
7 concerns, or even medium-sized, if the Board feels
8 that the existing operators serving that particular
9 territory will be harmed or their financial stability
10 will be lessened. It is a policy covering all
11 transfers, not only transfers to a railway. I see
12 there is an operator here and he has suffered from
13 that attitude of the Board, when we have refused
14 transfers to him.

15 Q. But when you say that each transaction
16 should be examined, would that mean that each
17 transaction that the C.N. or C.P. may enter would
18 have to become public?

19 A. I do not quite seize the question, sir.

20 Q. You say that each transaction involving
21 the acquisition of independent trucking companies
22 should be examined. Would that mean that if the C.N.
23 or the C.P. wants to enter into a transaction to buy
24 a private or a trucking company would have that
25 transaction opened to public?

26 A. In other words, what we are asking there
27 is that they would be subject to the same rules and
28 control as other trucking companies in order to acquire
29 highway rights.

30 Q. I see. In the next paragraph you
mention:

"Further, the Government of the Province



1
2
3 of Quebec believes that the trucking
4 operations of the Canadian railways
5 and their possible extension should
6 be kept under control and the necessary
7 steps taken to prevent any lessening
8 of competition..."

9 Would you not be inclined to think that the
10 necessary steps to prevent any lessening of competition
11 would not be no regulation at all? I mean, when you
12 have regulation, that you cannot have competition?

13 A. Oh, yes, definitely we have competition.
14 Probably not competition of rates in the same sense
15 as the jungle warfare, where their rates are not
16 disclosed.

17 Where you have the disclosure of rates,
18 the tendency is all carriers will have to file
19 approximately the same rates. It may go down lower
20 or it may stay stable, but no carrier can continue
21 to compete unless his rate is approximately the same
22 as the other published rate of another carrier.
23 But there is certainly competition of service.

24 Q. I see. I may turn your attention,
25 Mr. Harold, to page 95, and the first paragraph
26 called paragraph 372. You mention in discussing
27 passenger traffic that some further improvements
28 should also be considered on the Quebec-Malbaie and
29 the Quebec-Chicoutimi lines, among others.

30 What do you think would happen if those
lines were discontinued for passenger traffic? Would
it really cause a serious disturbance to the people



1
2
3 of the region?

4 A. I have not been down to Malbaie for
5 some period of time. I have been to Chicoutimi, and
6 I do not travel by railways, not on that line.

7 Q. Do you know of anybody that does?

8 A. Not in the last ten years.

9 Q. And on the same line with passenger
10 traffic, in paragraph 376 at the beginning of page 96
11 you talk of advantages if there was a suburban station,
12 and you give this as an example, that a man could take
13 the passenger train from Quebec City to Montreal in
14 the morning, and then return to Quebec City the same
15 day. Also, in the same line as the other question
16 about Chicoutimi, what do you think would happen
17 if there was a train leaving Park Avenue in Montreal
18 and reaching Chapagny, Quebec in two and a half
19 hours?

20 A. I think it would be an advantage.

21 Q. Do you think that many people will travel
22 by plane?

23 A. Actually, except for the time of
24 departure I do not see much advantage by plane either
25 to Ottawa or to Quebec. The distance is too short
26 for the time that you have to take in gaining the
27 airport and coming in from the airport at Montreal or
28 in the reverse direction. But sometimes I take the
29 plane because of the convenience and the hours of
30 departure or arrival, not because there is a time
saving.



1
2 Q. I am asking that because one might
3 not be inclined to agree with you that the railways
4 are directing the policies of the truck subsidiaries.
5 They may be but some others are inclined to agree, as
6 you do, about the truck and that the railways are
7 directing the policy of the air transport. They prefer
8 to keep the time at four hours by train between Quebec
9 and Montreal instead of the two and one-half hours
10 which both of us know they could do just to develop
11 air transport.

12 A. Actually I am only speaking from my
13 personal experience. The comfort of railway travel
14 between Montreal and Quebec, except for the time of
15 departure, more than compensates for the trouble of
16 going down to the central location to get the air
17 transporter out to the airport, waiting for the plane,
18 getting on the plane and having the same trouble to get
19 away from the airport at Quebec. Now, I used to take
20 the plane much more often when the route of the air
21 transporter went by Snowden which is just a jump from
22 my residence. However, now they go further down and
23 they do not go by that route; they go by Dorval with
24 the result that it is not so convenient. In most cases
25 I am satisfied with the railway but I would be much
26 more satisfied if they would give a good time service
27 and it could be done because it is done in the United
28 States.

29 Q. Now may I direct your attention to
30 page 121 where the province refers to the Crowsnest



1
2 agreement and in paragraph 493 you say:

3 "Further, as a result of the grants given,
4 the C.P.R. entered into an agreement of
5 great national importance and we would
6 expect that the C.P.R. would honour its
7 undertakings."

8 What would you say about the Canadian
9 National in connection with that?

10 A. I would say that they would be in
11 the same position. As far as I personally know I believe
12 they have honoured their obligations.

13 Q. But they did not sign any agreement,
14 the C.N.R.

15 A. No, that is true. There was no
16 agreement with the Canadian Northern.

17 MR. SINCLAIR: The Manitoba agreement
18 which they honoured.

19 THE WITNESS: I gathered the Canadian
20 National took over the obligations of the Canadian
21 Northern.

22 MR. SINCLAIR: Certainly they were
23 honoured.

24 COMMISSIONER GOBEIL: Q. On your section
25 12 on legislative proposals in paragraph 538 you say:

26 "Most of these proposals are based on
27 the basic premise that the railways should
28 be allowed to run their operations like
29 a business and they should be able to
30 make everyone of their operations pay for



1
2 itself."

3 Then in the next paragraph you say:

4 "We believe that the railways have
5 national responsibilities as well as
6 business responsibilities."

7 Should one conclude from that that what
8 the province of Quebec has in mind is that if the
9 railways have to fulfill certain obligations, have,
10 as you call it, national responsibilities that they
11 should not be run as business and they should take the
12 burden of any deficit which may occur.

13 A. I think the province goes so far as
14 to say that any departure or at least a departure from
15 strictly profit making business principles could be
16 ordered by the Board of Transport Commissioners in
17 Ottawa. In other words, as it is a public service it
18 should remain under the control of the Board of Transport
19 Commissioners.

20 Q. And if there happened to be a deficit
21 it should be carried by the railway or by the public
22 if it is in the national interest?

23 A. Is not the question of a deficit one
24 of the responsibilities of the Board of Transport
25 Commissioners to see that within limits of their
26 authority such deficits are not met by reason of
27 any, shall we say, government enforcement of national
28 obligations. In my opinion if you are going to
29 restrict any private organization where it is a public
30 service controlled by a body, they must show that the



1
2 private company must receive sufficient revenues to
3 carry out its obligations.

4 Q. And if they do not it is the government's
5 duty whether municipal, provincial or national to see,
6 if they are asked to perform a certain function which is
7 in the national interest, to carry the burden which is
8 involved.

9 A. Well, I hate going into hypothetical
10 cases and this is my personal opinion entirely but if
11 the Board of Transport Commissioners gave a ruling which
12 they thought was necessary to the successful working of
13 the railway and that was overruled, as it can be
14 overruled by the present act, then I think that the
15 body that overrules will have to take the responsibility.

16 Q. Mr. Fournier this morning corrected
17 a statement in the Star regarding a member of the
18 Senate --

19 MR. FOURNIER: The Toronto Daily Star.

20 MR. GOBEIL: The other one is so small,
21 you know.

22 MR. FOURNIER: Which one?

23 THE WITNESS: No comment.

24 COMMISSIONER GOBEIL: Q. Assuming that
25 it is thought those passes should be discontinued which
26 the province of Quebec does not recommend, if that
27 is done, do you think it should be terminated, the
28 passes should be terminated only for a member of the
29 Senate and a member of the House of Commons or they
30 should be terminated for everybody including the



1
2 employees of the railways?

3 A. Well, I really feel that passes for
4 the employees should be terminated before the passes
5 of a government servant or person going about government
6 business.

7 MR. SINCLAIR: They have been on commuter
8 services now.

9 COMMISSIONER GOBEIL: Do you know, Mr.
10 Harold, whether it is -- we were told their passes
11 cost \$15 million dollars.

12 MR. FOURNIER: If my memory serves me
13 well I think it is \$6 million 500 thousand dollars.

14 COMMISSIONER GOBEIL: It is \$6 million
15 dollars for Canadian National and \$9 million dollars
16 for the Canadian Pacific. About \$15 million dollars.

17 A. Do you mean the members and Senators?

18 Q. No. All their passes, free
19 transportation.

20 A. It would be a question; if their
21 passes were discontinued for the employees it might have
22 an effect on their salaries and then it would all be
23 from the same pot. On the other hand, if free passes
24 were discontinued for outsiders, I mean for the members
25 of the House of Commons and Senators and others ---

26 Q. It may be the real insiders.

27 A. Well, those people, it would be the
28 government who would ultimately pay and to that extent
29 the railways would benefit. Has there been any
30 estimate of the cost for members?



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

MR. FOURNIER: Not that I know of.

COMMISSIONER BALCH: You know, Mr. Harold, the employees' passes have been curtailed quite a bit to what they used to be.

THE WITNESS: Yes, I know that.

COMMISSIONER GOBEIL: Q. I have only one last question and it is at paragraph 510 where you say that the province of Quebec is opposed to the change proposed by the Maritime Transportation Commission on the Maritime Freight Rate Act on the ground that they run contrary to the true objectives of the Maritimes Freight Rate Act. Would you comment on the true objection of the Maritimes Freight Rate Act?

MR. FOURNIER: Sir, that it comes within the Act. It has been said often that --

COMMISSIONER GOBEIL: Q. Would you excuse me? Suppose I give you my understanding and you tell me if you agree with it. Is it your impression or your belief that this act was made for two reasons; first, as a part of a contract for the entrance of the Maritime provinces into Confederation and, second, to correct the situation which developed from the Trans-continental railways. Would you say that this is so?

A. Yes.

Q. And would I be correct also or do you agree with me that the Duncan Commission decided once and for all to correct these things and take care of it and the consideration was 20%?



1

2

A. It was stated in their recommendation.

3

4

5

6

Q. And when you say that you are opposed to any change on the ground that they run contrary to the true objectives, if the true objective were 20%, does the province of Quebec mean the 20% or 30%?

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

A. In my opinion the province is not arguing and did not argue with them when the 20% was increased to 30%. However, they feel this fixed increase has more than met the true objectives and that any others, if any others are necessary, should be signed and there may be reductions necessary in order to avoid advantages to the Maritime industry or disadvantages to industry in the central provinces if the 30% is used in particular instances either on certain industries or on certain commodities. To base everything on nothing but transport charges without enquiring more deeply into the cost of production, the ability of industry in one area to compete with another is not realistic. They feel that the 30% has gone very far and from now if there is any relief left in the Act it should be on specific request which is studied and passed upon by a competent authority.

24

25

Q. Do you mean it is a real case of conscience?

26

27

28

29

30

A. No, but for instance, it may be one commodity where 32% is necessary but there may be another commodity where 32% is necessary or perhaps 26% is enough to put it on a competitive basis. I do not think the intent ever was to give a competitive



1
2 advantage for a certain industry or commodity over
3 industry which is operating in the central provinces.
4 In other words, it is narrowed entirely on transpor-
5 tation and you have to take other factors into account
6 in industrial competition also.

7 Q. As it is there is no 32% or 28%,
8 there is a flat 30% for everybody.

9 A. And in Quebec we accepted that and
10 did not raise any question but it should go no further
11 because we feel in some instance 30% has gone to the
12 limit or passed it. In fact, that is the argument
13 of one industry in the province of Quebec that the
14 30% has transferred the competitive advantage to the
15 Maritime industry.

16 Q. Is it not your impression that
17 the additional 10% which was given three years ago
18 was just strictly and purely for economic
19 considerations.

20 A. Maybe that is why under table IV
21 there has been an advantage in the last two years in
22 the personal income of the Maritimes as against the
23 personal income of Quebec.

24 Q. And if it was for economic
25 considerations how could you say that it should be
26 fixed and stopped at 30%? Why should it not be lower
27 or higher according to economic considerations or
28 conditions?

29 A. What do you mean by "economic
30 considerations"? My suggestion is the specific



1
2 application should take all factors of economic
3 consideration into the judgment. As it stands now
4 it is only freight rates whereas if there is any further
5 release it necessarily should take in the question of
6 wages, cost of raw materials, taxation and all the
7 other factors that go into the pricing of a product
8 to see whether there is any need for the particular
9 industry to have any further benefits.

10 Q. What I mean is, the only thing I do
11 not understand in the Quebec submission is that you
12 say the province of Quebec is opposed to change and
13 yet there was a change made made three years ago by
14 economic considerations and if you take that factor
15 into consideration then I do not understand how this
16 30% cannot change. It could go lower to 26% or it
17 could go to 70% and in the Maritimes some of them have
18 gone up 100%.

19 A. When will they stop?

20 COMMISSIONER GOBEIL: I thought the
21 province of Quebec would have suggested the way the
22 Duncan Commission put it. Thank you, sir.

23
24
25 BY COMMISSIONER ANSCOMB:

26 Q. Mr. Harold, I think your brief has
27 been covered very well not only, as I express it,
28 by the gentleman who double crosses the witnesses,
29 not cross-examine them, but by my colleagues. I am
30 not going to ask you any questions except one which is



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Harold
(Gobeil)

20925

1
2 pretty well a personal one. I would not expect you
3 to answer this question on behalf of the province of
4 Quebec but I would like to know why you still, and I make
5 that very clear, the word "still" in the whole brief
6 define the railways as public utilities? And now, the
7 very term self indicates that that must be a government
8 monopoly whether it is a federal, provincial or
9 municipal one with all the powers of a monopoly and a
10 guaranteed rate of return.

11
12
13
14
15
16
17
18
19
20
21 -
22
23
24 -
25
26
27
28
29
30



1
2
3 Now, there is nothing like that at all in the year 1960
4 with the railroads as I see it. If there is I want
5 to know it. If we were sitting here in the year 1930
6 I might agree with you, but today the railways are
7 utterly smothered with competition under the ground,
8 across the sea and up the alleys, and how can they
9 be in the strict sense of the term still called public
10 monopolies or public utilities?

11 A. Well, a public utility is not necessarily
12 a monopoly. A gas company is considered a public
13 utility. A bus company we consider a public
14 utility, and I think in the Province of Quebec is
15 subject to the rule that the employees cannot strike
16 -- the employees of public utilities -- without going
17 through certain procedure. A trucking company --
18 and there is certainly competition -- is not certainly
19 a monopoly in any sense of the word, and yet is
20 considered a public utility. It is a utility
21 serving the public and must give that service to
22 the extent of its financial ability and resources
23 and cannot cease to give it without the intervention
24 of government, and it gives that service because of
25 the intervention of government or the control of
26 government.

27 Q. Even with what you say you, yourself,
28 have to admit that you won't allow anybody to run
29 at a loss. If the rate is too low your Commission
30 will put it up, I understand?

31 A. That is absolutely true. I think any
32 public utility is entitled and must be entitled to



1
2
3 sufficient revenue, as we say, to meet its financial
4 requirements, to operate, and to give as efficient
5 return to attract the necessary money to expand
6 its services when required.

7 Q. But you will agree with me that is not
8 the present position of the two railways in Canada?

9 A. Well, I don't think I am qualified to
10 state that.

11 Q. You are just as qualified as I am, but
12 you may not say it. Thank you, Mr. Harold.

13 CROSS-EXAMINATION BY COMMISSIONER MANN:

14 Q. I wonder if we can have a short discussion
15 on some of the principles which have already been
16 touched on and which I am sure are clear to everybody
17 but me.

18 In your discussion this morning with Mr.
19 Sinclair in relation to commuter traffic you made
20 a very definite statement that if the railways cannot
21 make any money on such traffic they have two alternatives:
22 either they withdraw the service or increase the rates.
23 You make that statement with regard to commuter traffic:
24 why wouldn't it hold true with equal force with
25 regard to any traffic by any transportation agency at
26 any time?

27 A. Well, I feel ~~this~~ way, that if it is
28 definitely proven that the revenue will not meet the
29 marginal costs, the out-of-pocket costs, for giving
30 that additional service, discontinuance should be
allowed, and we so allow in bus companies, but if
the service is given where marginal costs are met, and



1
2
3 the bus company has sufficiently broad basis, or the
4 trucking company, that there are other lines which
5 are compensatory, we feel in some cases they should
6 continue to give that service because they are not
7 losing money on it. It is part of their
8 organization. I think it is a question of judgment
9 in each particular instance, but whether you
10 discontinue or don't allow the discontinuance is a
matter for some control.

11 Q. The principle has to be modified, then,
12 and subjected to an empirical test, and the test is
13 how broad is the revenue base on the carrier concerned.
14 Is that your test?

15 A. To some extent, yes.

16 Q. If the carrier came and said that the
17 proportion of the unremunerative services is growing,
18 should that make the case for abandonment or
discontinuance easier?

19 A. Or should make the case for an increase
20 in rates easier.

21 Q. Yes.

22 A. Just recently in the bus industry
23 we have been obliged to slightly increase our basic
24 mile rates as our guide, which has been to not so
25 much increase the expenses as to offer traffic to
private automobiles.

26 Q. Is it, in your opinion, a matter of
27 judgment for the company, for the operator, to decide
28 whether he wants to apply for discontinuance or
29 abandonment or an increase in rates? Is that the
30



1
2
3 judgment of the operator?

4 A. Again I quote from personal experience:
5 we have had cases where bus companies have come before
6 us asking for discontinuance. They don't want the
7 trouble of giving that service even though they are
8 not losing actual money, and we have looked into it
9 and decided there is a real necessity for it. That
10 is not a burden on the company, and we would require
11 the company to continue on an annual basis, and
12 we will examine it each year to see whether conditions
13 have improved or worsened.

14 Q. In those cases were there any other
15 carriers that could have given service -- airlines,
16 railways -- or was the bus company in a quasi
17 monopolistic position?

18 A. Well, usually those particular cases
19 arise in small feeder lines in the rural districts
20 where everyone has acquired an automobile, and the
21 children want to go to and from school, and the service
22 is a relic of previous days, before the automobiles.
23 But we allow quite a few, but before doing so we will
24 give notice to the municipalities and we will allow
25 those municipalities to see the figures. We will
26 allow them to make suggestions. We will say, "What
27 would you do?" Probably in a bus company, which
28 has not yet been associated with the same idea of
29 size as a railway -- maybe the sympathy of the
30 municipality is easier to obtain for the bus company.

Q. I see your point.

A. It is true.



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

Q. In general it can be said that, in your opinion, an emperical test should be made as to whether the carrier who wishes to unburden himself of the service has a revenue base large enough to carry the service: this is a matter for judgment -- that is your attitude?

A. Shall we take the case of an operator who has only one line and he is operating on a barely marginal cost: he can't continue.

Q. No.

A. Whereas at least with part of the provincial transport we may say: "Continue. It is not bothering you. You have the personnel and you are not losing money."

Q. Well, in your judgment, they are strictly economic factors?

A. Absolutely.

Q. Why is it important to take into accounts, when dealing with rates, as you have suggested -- why is it important to take into account historical, legal and political reasons in the setting of rates if the test is entirely economics?

A. Historical, yes, because of grants. I mean because of agreements or grants made at the time.

Q. Might I interrupt you there to get it in continuity on the record: if it can be proven that the grant has been discharged in full, does the grant have any further bearing in the field of economics?

A. I would feel that that is a decision for



1
2
3 the persons ---

4 Q. For whom?

5 A. For the people who are charged with
6 that responsibility.

7 Q. Yes?

8 A. I would not want to give an answer on
9 a hypothetical issue because I have not followed the
10 proceedings.

11 Q. No. Our discussion is entirely
12 hypothetical. As I said to you at the beginning,
13 we are trying to get on to some principles here.

14 A. Well, I would say if I were satisfied
15 beyond question that the obligations had been
16 satisfied I don't see how you could expect private
17 industry to continue without some revision of the
18 contract.

19 Q. Right. So, we are still, you and I,
20 on the economic test as the sole criterion as to
21 what happens to a service or to a rate?

22 A. Yes.

23 Q. In other words, your submission there
24 about the historical reasons which may enter into it
25 has to be modified to the extent we have just
26 covered?

27 A. In my personal opinion.

28 Q. Yes. Now, let's go into the other one
29 that intrigued me -- political reasons. I wonder
30 if you would be good enough to explain what you mean
by political reasons that may enter into the
determination of a freight rate?



1
2
3 A. I have no comments on that. I feel
4 in my position I am removed from politics.

5 Q. You and I share that. But, it
6 reads well.

7 Colonel Harold, we will leave this ticklish
8 subject now. You have mentioned this morning --
9 and I think it was in a discussion with Mr. Sinclair
10 -- that you did not feel that the freight rate structure
11 -- and I am not thinking of the railway rate structure
12 as such -- the freight rate structure in the
13 transportation industry -- you feel the freight
14 rate structure should not be used as a means of
15 giving economic assistance. I may have missed that,
16 but I wonder if you would be good enough to tell
17 us again, if you have already covered it, why you
18 feel that way?

19 A. I am trying to orient my mind. I
20 don't think I went so far as to say that freight
21 rates should not be considered in giving economic
22 assistance. I think it is one factor provided
23 the rates are compensatory, and which we say do
24 not eliminate the possibility of competition by
25 other transport media.

26 Q. The compensatory factor in the
27 competitive part of your answer would not be applicable
28 if the assistance were by way of a subsidy which
29 did not cost the carrier anything to lower his
30 rates beyond what he considered a compensatory level?

A. Personally I feel that if at all
possible we should stay away from subsidies, but in a



1
2
3 country like this that is a matter for decision by
4 government, and I certainly feel in most cases their
5 decisions have been wise as to the necessity for
6 subsidies, but I am not too happy to see all the
7 claims made by everybody for subsidies.

8 Q. I know what you mean. You see, I
9 am still not clarified in my own mind why subsidies
10 should not be dispensed through transportation, and
11 that some other field such as, say, taxation should
12 be used to distribute economic assistance where it
13 maybe proven necessary?

14 A. Well, one principle on transit rates
15 is that, for instance, if a transit company does not
16 take the depreciation which is normal in any year,
17 when they come to ask us for an increase in rates,
18 we will not allow them to ask for the other to cover
19 the depreciation which they have not taken, because
20 we claim that tomorrow's user should not pay for
21 the failure of obtaining the proper money from the
22 user of yesterday. Now, applying that same principle,
23 if you are going to take subsidies out of freight
24 rates you are asking certain classes of population
25 to pay those subsidies instead of spreading them
26 over on the taxation field.

27 Q. It was a question of discriminating
28 between tomorrow's user and today's user, or between
29 two users of today?

30 A. Yes.

Q. And you think this discrimination is
more likely to occur if the government's largesse is



1
2
3 distributed by transportation rather than by taxation?

4 A. Well, I think that can be best
5 answered by the fact that our rate structure is so
6 irregular and unscientific. It is what the traffic
7 can bear in most cases.

8 Q. You think our tax structure is more
9 scientific and regular?

10 A. I haven't studied it as much, but I
11 hope so.

12 Q. I was going to ask you to give me an
13 example of what may happen if you gave assistance
14 to a region by way of the tax structure. Let us
15 take this example, hypothetical as it is: there is
16 a paper company in Chandler; there is also a paper
17 company in La Tuque. If the economics of the
18 region around Chandler are such that it is felt
19 wise for the Province of Quebec or the government
20 of Canada to do something by way of the tax structure
21 for the paper company in Chandler, would you not
22 put some inequity on the paper company at La Tuque?

23 A. That may be true, but that would be
24 government decision based on and carried out by
25 taxation.

26 Q. So that we have the same possibility
27 of inequity of treatment between various people
28 in the tax structure as we may have in the
29 transportation rate structure: there is no
30 difference, is there?

A. Maybe we should put it the other way:
by taxation we try to gain equality.



1
2
3 Q. And can you also put it this way,
4 that sometimes by transportation we may try to
5 gain equality?

6 A. But then you are only charging one
7 particular industry, or it may fall very unevenly
8 on the population who are using that industry.

9 Q. Coming back to the example of Chandler
10 versus La Tuque, is there any difference in giving
11 the tax concession to the paper company at Chandler
12 versus giving it a transportation assistance in so
13 far as the effect of that specific assistance
14 will be felt by the industry at La Tuque?

15 A. When you speak of transportation
16 relief, would that be a subsidy, or would it be a
17 control of rates, and would it apply to only one
18 transportation medium?

19 Q. Let us postulate it applies to all
20 transportation media and that it would result in
21 a money saving to the company at Chandler which is
22 as great as it would have had had it been given
23 a tax concession and which then give it a definite
24 advantage over the company at La Tuque. What is
25 the difference between doing what you are trying to
26 do by way of taxes or by way of transportation?

27 A. Well, I just don't see how you could
28 do it by transportation except as a subsidy open
29 to all transportation media. In that case the
30 subsidy is paid to transport instead of paid out
in the form of relief of taxation.

--- Short recess.



1
2 THE CHAIRMAN: Order, please.

3 COMMISSIONER MANN: Q. I think, Mr.

4 Harold, when we last left that we were in LaTuque. I
5 wonder whether we can come back to something you said
6 in answer to me a little earlier. You stated the
7 principle that tomorrow's users should not pay for
8 today's users. When it comes to the extension of the
9 transportation facility into a virgin area for the
10 sake of opening up that area, and it can be demonstrated
11 that today's user cannot possibly pay for the service,
12 how do you work this, bearing in mind what you told us
13 about the principle that should govern it?

14 A. That confirms exactly my opinion, that
15 it should be by taxation and not by rate charges.

16 Q. Yes. So that, then, you are
17 actually departing from this principle of not making
18 tomorrow's user pay by putting taxation on that may
19 eventually, in a sense perhaps, be passed on to the
20 tomorrow's user by way of the debt structure of the
21 country, for instance?

22 A. That is true, but I think that is
23 done by government. They have the policies. They have
24 the supreme power of taxation and should be and in
25 fact are the only ones who should have the right to
26 tax and distribute that money.

27 Q. And they could do the same thing,
28 I suppose, by giving a railway company enough money
29 to build a line and absorb the cost of that into the
30 general debt structure of the country, allowing then



1
2 the freight rates to be on a very low level?

3 A. Or even exempting it from any control
4 as to freight rates, but basing it entirely on a return
5 eventually through the government. Each case must be
6 considered and the contractual relations between the
7 railway and the government.

8 Q. So here again we have a case where
9 the original area or what I conceive to be a rather
10 rigid principle of not using transportation as a
11 means of economic readjustment or adjustment becomes
12 a matter of discretion: you can use transportation or
13 other medias as you see fit.

14 A. Well, I think I am being misunderstood
15 a bit when I say that I do not think that we should
16 use transportation charges if at all possible to avoid
17 it; that we should use taxation.

18 Q. Yes, I understand. Subject to the
19 discussion we have had earlier, I understand your
20 view.

21 Now, in your submission at page 131 of
22 the English text in paragraph 542 you say that you
23 disagree with the submissions made by the Canadian
24 National to us for greater freedom in rates, and that
25 you feel that public interest requires that the Board
26 of Transport Commissioners of Canada should retain the
27 right to review rates.

28 Well now, why should there be any concern,
29 Colonel Harold, on the part of anyone with regard to
30 freedom of rate making when those sectors of traffic,



1
2 whether it is competition -- let me perhaps sharpen
3 this question for you for the sake of better
4 understanding.

5 Competition, I suppose you find, sets the
6 maximum for the rates which any one carrier can charge.

7 You gave us an example earlier of highway carriers.

8 One cannot possibly charge any more than the other
9 because he would not get the traffic.

10 Now, under those conditions, Colonel
11 Harold, why would you not leave the railways free to
12 set rates that are competitive?

13 A. Well, I think the strongest reason
14 is that an organization who could delay necessity for
15 a return on money, who could lose money over a few years,
16 could eventually drive out the weaker media and then
17 have the field to itself. In the meantime, for a
18 temporary advantage industry is going to suffer very
19 severely in the long run.

20 Q. I should have made myself clear when
21 I asked the question. I was really at this moment
22 talking about maximum rate control; I was coming in a
23 minute to minimum rate control but perhaps I should do
24 so now.

25 Subject to the retention by the regulatory
26 authorities of a over-riding right to ensure that no
27 rate is non-compensatory or to put it more positively,
28 that all rates are compensatory, why should there be
29 any competitive rate sectors in maximum rate control?
30 Why should not the railways agree to make rates in that



1
2 sector as they see fit?

3 MR. FOURNIER: Sir, I do not think we
4 have promoted any maximum rates.

5 COMMISSIONER MANN: I beg your pardon?

6 MR. FOURNIER: I do not think that the
7 submission talks about any maximum rate system.

8 COMMISSIONER MANN: No, Mr. Fournier,
9 I understand that. I am trying to discuss with
10 Colonel Harold, who is a very experienced administer
11 of rates, the principle of rate making. He and I know
12 what we are talking about when we talk about maximum
13 rate control.

14 MR. FOURNIER: I wonder if we should get
15 out of the submission, unless the witness is taken as
16 an expert on behalf of the Commission.

17 COMMISSIONER MANN: No, Mr. Fournier,
18 I am talking about the flexibility of rate making which
19 is dealt with in section 542 of your submission and I
20 am wondering in what areas this flexibility should or
21 should not apply.

22 THE WITNESS: I feel that, on the other
23 hand, for the protection of shippers there should still
24 be control on the maximum because there could easily
25 -- and I say this with no reflection of conspiracy --
26 there could easily be on the part of all carriers a
27 tendency to increase rates beyond a reasonable basis
28 to the detriment of shippers.

29 Q. Right. This is a very important
30 point before this Commission and that is why I was



1
2 hoping you could give us the assistance and you
3 certainly are doing that, Colonel Harold.

4 I want to cover one more subject with
5 you very briefly, and that is the question of what I
6 think you have already touched on, of user charges
7 levied against those who use public facilities.

8 I wondered whether in principle you are
9 of the opinion that user charges should be levied
10 to the fullest extent possible?

11 A. I do not quite understand you.

12 Q. Oh. Let us take the example, Colonel
13 Harold, of, say, the airlines. The public purse provides
14 certain facilities for the airlines by way of navigational
15 aids and airports. Do you feel that it is, for the
16 sake of equality of treatment of all carriers, necessary
17 to recover the expense of providing such public
18 facilities from the users thereof, namely the airlines
19 in this case?

20 A. Again, I think that is an international
21 policy. My own personal opinion is that every effort
22 should be made to recover that, or as much as possible,
23 within the limits of national policy.

24 COMMISSIONER MANN: Thank you, Colonel
25 Harold. It was indeed a pleasure to have you before
26 us and you have been very helpful indeed.

27 THE CHAIRMAN: Well, thank you very much
28 Colonel Harold. You have been very helpful and I think
29 you have impressed the Commission as a very able and
30 competent witness.



1
2 THE WITNESS: Well, I certainly appreciate
3 those remarks, Mr. Chairman.

4 MR. FOURNIER: Mr. Chairman, I must say
5 that Colonel Harold has provided us from conversations
6 I have had with him and exchange of correspondence,
7 with very useful information in the drafting of this
8 submission. And if it had not been there, the submission
9 would not have been what it is before you, sir. I want
10 to extend to him expression of gratitude on behalf of
11 the province of Quebec for having consented to come
12 here.

13 THE CHAIRMAN: Quebec is very fortunate
14 to have such a man.

15
16
17 RE-EXAMINATION BY MR. FOURNIER:

18 Q. I should like to ask a question of
19 Colonel Harold, and it is a very short one.

20 Colonel Harold, Commissioner Mann has
21 asked you a question regarding the principle of rate
22 making. I think his question was referring to paragraph
23 498, and you were asked the following question if I
24 do remember, that only the economic principles should
25 apply in rate making and this was referring to
26 Crowsnest Pass rates. You are aware, of course, of
27 the historical part of the Crowsnest Pass Rates, sir,
28 and the way in which those rates came about and also
29 the disagreements between the government of Canada
30 and the C.P.R. You also are aware of the reasons



1
2 the political reasons, which were Confederation reasons
3 and the development of the country at the time. Do
4 you think that these historical, legal reasons, which
5 were made an agreement at the time and became law
6 afterwards, and political reasons are still reasons
7 to establish the rates? I mean that they should
8 be taken into consideration in order to establish the
9 rates or make the rates?

10 MR. SINCLAIR: I object to the witness
11 answering the question put by counsel because first,
12 the Crowsnest Pass rates have nothing to do with
13 Confederation; and, secondly, some of the statements
14 of history that he has put to the witness in my
15 opinion are not in accordance with the facts.

16 MR. FOURNIER: What are the facts?

17 MR. SINCLAIR: The facts are that the
18 Crowsnest Pass rates --

19 MR. CHAIRMAN: I think we have had a
20 surfeit of evidence in that regard.

21 MR. FOURNIER: I beg your pardon, sir?

22 THE CHAIRMAN: We have had lots of
23 evidence on that point, Mr. Fournier.

24 MR. FOURNIER: All right, sir.

25 I think that is all I wanted to ask
26 you, sir.

27 Now, I will call Mr. Dube to the stand.
28 He will testify on the first part.
29
30



1
2 YVES DUBE, called.

3
4 DIRECT EXAMINATION BY MR. FOURNIER:

5 Q. Mr. Dube, would you kindly state
6 your qualifications.

7 A. Well, I was born in Mont Joli, Quebec
8 in 1923, and went to school there until I was 13, until
9 1936.

10 In 1936, I entered the College at Rimouski
11 where I studied until 1944 and then I went to Laval
12 University.

13 Q. Which degree did you take at
14 Rimouski?

15 A. My B.A. degree at Rimouski. Then,
16 I went to Laval University where I studied science and
17 engineering until 1948. Then, I went to the university
18 of Chicago where I studied post-graduate work in
19 economics, econometrics. I came back to Laval in
20 1951, where I started teaching and I have been a
21 professor there since then -- from 1951-1960.

22 In 1951, during the summer, I worked
23 with the provincial government, the Department of
24 Trade and Industry, and made a special study on the
25 manufacturing industry in Quebec.

26 In 1953, I worked the summer of 1953
27 with the C.I.L. company in Montreal, the head office.
28 In 1954, I was statistical advisor to the Tremblay
29 Commission, and I did a special study for Quebec
30 Union of Municipalities on financing of roads in



1
2 Quebec.

3 In 1955-56 I was on the Gordon Commission.
4 I did the study with my colleagues, Hawes and
5 McQueen, on Housing and Social Capital in Canada.

6 I came back to Laval in 1956. In 1957,
7 I was appointed assistant professor and chairman of the
8 Department of Economics and I have been working since
9 then in different jobs, but my main job has been the
10 administering of the Department of Economics.

11 Q. And that is what you are doing,
12 actually now?

13 A. Yes, and I teach econometrics and
14 welfare of economics and the theory of economic
15 development.

16
17 CROSS-EXAMINATION BY MR. COOPER:

18 Q. Mr. Dube, a number of the points
19 which I wish to discuss with you I find have already
20 been covered by questions which have been directed
21 to Mr. Harold in cross-examination. Therefore, I have
22 not many questions to ask you, but there are some
23 points still to which I would like to direct your
24 attention and on which I would appreciate your views
25 for the assistance of the Commission.

26 I refer you, first, to page 21 of the
27 submission of the province, paragraph 85. This
28 paragraph reads:

29 "Looking to the future, we feel that
30 the type of transportation policies which



1
2 would best serve Canada's national interest
3 should be dynamic and flexible policies
4 which take account of changing economic
5 circumstances and technological
6 progress. To formulate such enlightened
7 transportation policies we need more
8 research and planning in the transportation
9 field. We have elaborated these two
10 points further when we speak of principles
11 of transportation policy in section 6,
12 paragraphs 251 and 252."

13 I should like to ask you, Mr. Dube,
14 whether you envisaged a special governmental body not
15 now in existence being set up to do research and
16 planning over the transportation field?

17 A. Well, the answer is that I think more
18 research in planning and transportation should be done
19 by the transportation industry first.

20 I think there should be more surveys done;
21 more planning done there, but I think it would be
22 very important that it is done within government
23 departments. One very important point that is
24 mentioned in the brief is that our northern development
25 should be planned, and I think that as this development
26 is based on the development of natural resources and
27 very often many resources, forestry and so on, that when
28 we build a line it should serve as much as possible to
29 develop all those resources. So, I think the primary
30 responsibility in the planning would be the government



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Dube, cr.ex.
(Cooper)

20946

1
2 itself and also the transportation industry, and there
3 should be cooperation between the two.

4 Q. Do you consider that there is not a
5 proper measure of cooperation between the two at the
6 present time?

7 A. Well, I am afraid that there has not
8 been very much research done in the provincial
9 governments and Quebec has the intention of having
10 more research now, and I think this should be
11 followed by transportation companies.



1
2
3 Q. What you visualize then is an
4 intensification of research and planning through
5 existing agencies rather than the establishment of
6 any new agency for such a purpose?

7 A. Yes, sir.

8 Q. When you are speaking here of the
9 transportation field are you speaking of railways,
10 the trucking industries, air, the whole transportation
11 field or have you in mind any specific factor
12 of the transportation field such as railways?

13 A. I think we are speaking of all
14 transportation medium.

15 Q. On page 41 you speak of wider
16 geographic distribution of industry. In paragraph
17 145 you say:

18 "It is essential for the
19 continuing prosperity of Quebec and
20 to bring greater benefits to the
21 people living in the various parts of
22 the province to decentralize industry
23 and to achieve wider geographic
24 distribution of industrial activity."

25 What positive parts, if any, do you
26 consider that the transportation industry play in
27 attaining that objective?

28 A. Well, I think that one of the things
29 they could do is provide good transportation services.
30 For instance, we have the Trans-Canada Highway
program and more specifically I think the roads to
resources program. I think too, the aspect of



1
2
3 road making can be very important in the determination
4 of whether an industry is going to localize near the
5 resource site or close to the urban market.

6 I think some adjustment could be worked out if
7 such a policy is followed. I am not commenting
8 on the policy itself but just the implication of
9 what the policy would be on transportation.

10 Q. Let us take the railways for a
11 moment: what positive part do you think they should
12 play in attaining this objective 6 as stated in
13 paragraph 145 on page 14? Should they take the
14 initiative in this matter in some way and, if so,
15 how?

16 A. No, I think that is the government
17 policy we have stated there and I think the railroads
18 should help the government.

19 Q. How are they going to furnish that
20 help? The railways, I think, would say ordinarily
21 that the government should help them and they not
22 help the government.

23 A. Well, I said at the beginning of my
24 submission what I understood the contribution was
25 that they should make.

26 Q. I did not get that.

27 A. I said earlier at the beginning what
28 I thought the various aspects of the transportation
29 policy should in relation to this.

30 Q. Well, do you consider that the
railways should build lines into new areas where
perhaps industry has gone in pursuance of the



1
2
3 decentralization plan and, if so, should these
4 railways -- this has already been touched upon --
5 build such lines if the lines are not going to be
6 remunerative? What are your views on that point?

7 A. I do not think the railroads should
8 build lines if they are not going to be remunerative.
9 In that case other arrangements could be worked out,
perhaps with the trucking business.

10 Q. You consider then as a general
11 principle in moving into new areas that railways
12 should not move in if the traffic which is going to
13 generate over that line is not going to be
14 remunerative to the railways in the sense of
15 returning the railways profit in the operation of
that line?

16 A. No, I do not think so.

17 Q. At page 42, paragraph 147 you say:

18 "We believe that we as a province
19 and Canada as a whole can develop
20 sensible transportation policies forming
21 an integral part of overall economic
22 policy, if we develop a set of realistic
23 principles and apply them to transportation
24 problems in the light of changing
economic circumstances."

25 Now, I rather infer from that statement
26 that at the moment we have not sensible transportation
27 policies. I would like you to state briefly to
28 the Commission, if you will, in what way you think
29 our present transportation policies are not sensible.
30



1
2
3 A. Well, I think as far as the provincial-
4 federal cooperation is concerned, what happens is
5 that we have a transportation media that depends on
6 the federal government in one case and another that
7 seems to depend on the provincial Board of Transport;
8 that is trucking. Other media may be not
9 regulated. Airlines are controlled by the federal
10 government and so on but I think the basic problem
11 is that you have to integrate and coordinate these
12 transportation areas to achieve transportation at
13 minimum cost and best transportation possible too.
14 I think that this arises very often, the question of
15 coordination arises where one media of transportation
16 is under federal jurisdiction and others are under
17 provincial jurisdiction. And I think research
18 has to be done so as to coordinate the business and
19 have the government cooperate.

20 Q. Your point is that we cannot have
21 a sensible transportation policy today because one
22 area is controlled by the federal government and
23 one by the provincial government and different aspects
24 of the transportation industry are subject to the
25 control of different governments, is that correct?

26 A. I am not saying the policies that
27 are followed today are not sensible but I am saying
28 they could be better policies if there was more
29 cooperation.

30 Q. And your sentence there is, I take it,
merely to point up that more cooperation is needed
between government agencies?



1
2
3 A. Yes, I think that is what was intended.

4 Q. And to this would you also add "And
5 also between government agencies on the one hand
6 and the transportation industry on the other"?

7 Now, on page 46, paragraph 172 you
8 mention different modes of transportation and you
9 state:

10 "These various transportation
11 modes must be made to fit together in
12 such a way that each is used in the most
13 economic manner."

14 We may have already dealt with this
15 point but do I understand what you are saying there
16 is related to the point we have already discussed,
17 namely, that there should be greater cooperation
18 between governments, government agencies and
19 departments and also between governments on the one
20 hand and the transportation industry on the other?

21 A. Yes, that is right -- I think that
22 is correct.

23 Q. At page 46, paragraph 174 you refer
24 to public utility and the national interest. The
25 paragraph commences:

26 "Transportation is not just a
27 business. A lively developing
28 economy must have transportation services
29 of various kinds. The differing
30 regions of the country must have the
opportunity of developing their
resources without artificial handicaps.



1
2
3 The national interest, therefore,
4 requires that all regions of the
5 country have adequate transportation
6 services and that all industries,
7 which use Canadian resources
8 sufficiently are enabled to grow
9 and develop in a favourable
10 economic climate."

11 Now, you point out there, Mr. Dube, the
12 fact that differing regions of the country have
13 different interests. I think that is implicit
14 in the paragraph I have read. In view of that fact,
15 is it possible to have a national policy apply
16 across the country in transportation or must such
17 a policy be tempered severely to the needs of each
18 particular region?

19 A. I would say that we would like to
20 have it tempered to the need of different regions
21 because I think as long as regions have prospects
22 of developing they should take every opportunity to
23 develop.

24 Q. We have heard many times the phrase
25 "national transportation policy" and like phrases,
26 but I would like to get your views as to whether
27 a Commission such as this can possibly recommend
28 steps which will apply to the country as a whole
29 or whether, in your view, each section of the
30 country must be considered separately in arriving
at any transportation policy and, perhaps, different
considerations applied to each section of the country.



1
2
3 A. Well, you are asking me of the
4 possibility of having an overall plan, developed
5 plan in the field of transportation?

6 Q. I am, in effect, yes.

7 A. At the national level?

8 Q. At the national level?

9 A. Well, I think we first have to have
10 plans at the local level, I think at the provincial
11 level, because I think the national resources controlled
12 by provincial governments mostly, I think it would
13 be better to start with the provincial governments on
14 that.

15 Q. You mean that as a starting point
16 in the formulation of any national transportation
17 policy the interests of particular regions must be
18 looked at. Is that what you are saying?

19 A. Yes.

20 Q. So, in any recommendations this
21 Commission would see fit to make you would consider
22 that they must be made with the fundamental objective
23 of taking into account the specific requirements of
24 individual and specific regions?

25 A. Yes, I think so.

26 Q. If that is done it hardly makes for
27 a united country having a common policy from one end
28 to the other, does it?

29 A. Well, I think what we said before, if
30 there was more cooperation between the different
governments of Canada and the transportation industry
with government -- the transportation industry between



1
2
3 themselves, at least for the time being it would be
4 sufficient.

5 Q. Well, if I understand you correctly,
6 what you are saying is if you get the proper
7 cooperation that you already have spoken of you can
8 so adjust these individual areas or specific areas
9 of the country or adjust the needs of them so you
10 can emerge with a comprehensive national policy, is
11 that right?

12 A. On the condition that the scheme is
13 based on research and objective and not on politics.
14
15
16 -
17
18
19
20 -
21
22
23
24
25 -
26
27
28
29
30



1
2 Q. Yes, not on politics. I think the
3 same idea occurs throughout your submission, and I
4 was going to refer you to page 47, paragraph 177,
5 Co-ordination and Integration, but that merely carries
6 out the same idea which we have already discussed?

7 A. That is right.

8 Q. I find that the other problems which
9 I was going to mention to you as they occur to me have
10 already been covered by what has been asked of Mr.
11 Harold and what you have already said, and I have no
12 further questions.

13 A. Thank you very much.

14
15 CROSS-EXAMINATION BY MR. SMITH:

16 Q. Mr. Dube, I have very few questions
17 to ask you. At pages 39 to 41 of the submission of
18 your province you discuss the policies of economic
19 development?

20 A. Yes, sir.

21 Q. And as I read these passages you
22 point out that your province is at the present time
23 actively engaged in encouraging further economic
24 growth and diversification of industry?

25 A. Yes, sir.

26 Q. You then go on to outline some of
27 the objectives which you feel must be taken to achieve
28 that end?

29 A. Yes, sir.

30 Q. And among them are the establishment



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

of more heavy industry?

A. Yes, sir.

Q. More processing of raw materials within the province?

A. Yes, sir.

Q. That is right, is it not?

A. Yes, sir.

Q. And wider geographic distribution of industry?

A. Yes, sir.

Q. When you speak of wider distribution of industry I take it you would like to encourage industry to establish in certain areas of the province where recent industrial expansion, or any industrial expansion, has not been as great as in other areas?

A. Yes, sir. There has been a statement by the Minister of Trade and Industry to that effect, that especially we feel Montreal is getting a little big, and we should try to put more industry into the country,

Q. Yes. Just to enlarge upon that topic, could you indicate some of the particular areas in the province where industrial expansion has been lacking?

A. This is explained in chapter V where we talk about the economic geography of the province -- not in substantial detail, but you can get a good idea from that discussion.

Q. Would that be parts of the northern



1
2 part of the province?

3 A. Well, the Appalachian region and the
4 Laurentian.

5 Q. Chibaugamou?

6 A. Well, that has been developing faster,
7 but that is the southern part.

8 Q. What about the Gaspé Peninsula?

9 A. Well, that is one that has not been
10 developing.

11 MR. FOURNIER: It has been.

12 THE WITNESS: It has been, but not as
13 fast as the others.

14 MR. SMITH: Q. I understand your thesis
15 is that to improve the economy of the province it is
16 necessary to encourage industry to establish in areas
17 where economic growth has not been present; is that
18 correct?

19 A. Well, there has been growth in other
20 parts of the province.

21 Q. But not to the same extent?

22 A. Not all parts of the province are
23 equally developed. There is a difference there.

24 Q. Not to the same extent?

25 A. That is right.

26 Q. As I understand it, on page 13 you
27 do not want the position of any of the inhabitants
28 of any parts of your great province to be regarded as
29 hewers of wood and drawers of water to use the biblical
30 expression?



1
2 A. Well, that is what the statement
3 means, I think.

4 Q. But, on the other hand, what you
5 wish is that industrial activity should be encouraged
6 particularly in those areas where it has previously
7 not shown the same rate of growth?

8 A. I object to you using the words
9 "same rate of growth" because you could have a long
10 argument on that.

11 Q. Yes.

12 A. It is important to emphasize the
13 different regions may have different standards of
14 living, and they may be still developing at the same
15 rate.

16 Q. Perhaps you can tell this Commission
17 what are some of the reasons for industrial growth
18 in these areas not being as great as in the Montreal
19 area to which you have referred?

20 A. Here again I think there has been
21 some growth but it is explained in chapter V of our
22 submission that some regions have not attained the
23 same standard of living as other regions because they
24 do not have so many natural resources, or they have
25 very low productivity agriculturally.

26 Q. May I suggest to you one of the most
27 potent of these reasons is that some of these areas
28 are far from large markets?

29 A. Well, that is true, sir.

30 Q. Is that one?



1
2 A. Gaspé would be one.

3 Q. And also that the factor of
4 transport costs may enter into the question?

5 A. Yes, sir.

6 Q. You agree?

7 A. Yes, sir.

8 Q. And as I understand it, insofar
9 as transportation is concerned, we will say, to
10 encourage expansion in the Gaspé Peninsula, there are
11 two factors which have to be overcome: one is the long
12 haul from sources of production to the market; and the
13 second, the rate of transport assumes major significance,
14 and that these factors must be overcome in some manner?

15 A. Yes, sir.

16 Q. Is that what you suggest?

17 A. We are not suggesting this -- we
18 have not mentioned rates in that connection.

19 Q. May I ask you this question, Mr.
20 Dube: what steps does your province propose to take
21 to overcome insofar as possible the problem of distance
22 and the problem of high transport costs in encouraging
23 industry to establish in areas such as the Gaspé
24 Peninsula?

25 A. Well, I suppose any steps could be
26 taken. The Minister of Lands and Forests just
27 announced a new scheme for developing the Gaspé
28 Peninsula -- the forest industry there -- which I think
29 is a \$75 million scheme. You could also do a great deal
30 to have a better service between the southshore and the



1
2 northshore so as to link the lower standard of living
3 of the southshore people with that of the northshore
4 people and provide them with a market. I think the big
5 thing is to have decentralization of industry. If we
6 could spread industry out a little more across the
7 province this would help the lower St. Lawrence region.
8 What has been lacking is transport, which I think is
9 a big market, and I think everything we can do -- and
10 also resources. I think everything we could do to
11 develop these resources and organize a better
12 transportation system for the wider markets -- I think
13 it would be a good solution.

14 Q. You say organizing transportation --
15 I did not quite get that.

16 A. Transportation with the northshore
17 and the southshore.

18 Q. Do you envisage as one of the methods
19 a direct subsidization of industry?

20 A. Well, I for one am not very much
21 in favour of direct subsidies to industry. I think it
22 is better for a tariff, and some people think today
23 if there is really a large scale industry, like a steel
24 industry, maybe you could organize it around the steel
25 industry -- some development of that -- it may be a
26 sufficient reason to subsidize it, but in any other
27 case I would not subsidize it.

28 Q. Are you for or against subsidy as
29 a principle?

30 A. As a principle, yes.



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

Q. You are in favour of it?

A. As a principle -- for myself, I am against it.

Q. But as a principle you are against it?

A. Yes. I think we could do a great deal better if we were to organize our industry around our natural resources where we have competitive advantage and not waste money on subsidies.

Q. But are you speaking for yourself, or is that the position your government is taking?

A. I am speaking for myself.

Q. What is the position your government takes in that regard?

A. I do not think they have announced any position in that regard.

Q. May I put it to you this way: to encourage industry to establish in the Gaspé Peninsula do you feel subsidy is necessary or a system of some kind -- government assistance of some kind?

THE CHAIRMAN: Call it what you will.

MR. SMITH: Q. Call it what you will.

A. Well, I think here again a great deal can be done by doing other things first, and then I think that the Gaspé Region suffers maybe from lack of markets and long distance to markets, and they suffer also from lack of resources, and I think one of the important things is hydro-electricity. I think this region has been lacking in hydro-electricity, and I believe if there were more hydro-electricity it would



1

2 have a better chance.

3

4 Q. Assuming you have a product in one
5 of these undeveloped areas which you cannot get into
6 a market due to high transportation costs: for the
7 benefit of the people in that area does your government
8 subscribe to the theory there should be government
9 assistance in order to enable these products to get
into the common market?

10

11 A. Well, sir, I am not the government
12 and I do not think the government has announced a policy
on this.

13

Q. No policy?

14

A. They have not announced a policy.

15

16 Q. No policy at all. But your own personal
17 views as a professor, you are against subsidies; is that
the position?

18

A. In general, sir.

19

20 Q. Are there any qualifications to your
views as to whether subsidies are necessary or desirable?

21

22 A. There is the usual argument for
23 subsidies of industry. When you have an infant industry,
24 the chances of growing by subsidy could be justified
there, but ---

25

26 Q. In other words, what you say is in
27 order to encourage a new industry to be established
28 government assistance may be required, and you subscribe
to the theory that is a good thing?

29

30 A. Well, I subscribe to it as an exception,
if the industry has a chance of growing. What I would



1
2 be against is to have a permanent subsidy, and what
3 is hard to decide there is, once the subsidy is
4 instituted, whether it should be for five years or
5 twenty-five years.

6 COMMISSIONER ANSCOMB: Once it is on it
7 is never taken off.

8 MR. SMITH: Q. May I put a concluding
9 question on this point: does your government have any
10 objection to government assistance for providing or
11 creating a climate, we will say, which will encourage
12 industrial activity in any area where industrial
13 activity has previously been lacking, or substantially
14 lacking?

15 A. I just gave one example of the
16 Gaspe Peninsula and I mentioned three things the
17 government of Quebec is trying to do there, and they
18 have not tackled the problem of industrialization
19 directly, but maybe it will come to this region with
20 that, and I do not believe there would be a large
21 scale industry in that region because the market is
22 too small, and it is too far away from the main market.

23 Q. Do you realize that in order to get
24 goods into a market the transportation costs or the
25 freight rate is one of the most important considerations?

26 A. It is a very important consideration,
27 sir.

28 Q. And in order to get the products into
29 the market are you prepared to recommend that there be
30 assistance of some sort for that purpose?



1
2 A. What do you mean? Do you mean a
3 subsidy to transportation?

4 Q. Subsidy to transportation or subsidy
5 of some kind -- government assistance of some kind? Or
6 are you against government assistance at all as a vicious
7 principle?

8 MR. FOURNIER: You mean the witness or
9 the government?

10 MR. SMITH: Well, I do not understand
11 this dual capacity. He is here submitting a case, and
12 if this were an action in law he would come here to
13 present the case to this Commission. I do not see that
14 he is entitled to have two opinions. He either has
15 an opinion which he is representing here of the
16 government -- I think his own opinion is not of very
17 great assistance to the Commission?

18 THE WITNESS: Well, the government has
19 not announced a policy on this.

20 COMMISSIONER BALCH: Give the government
21 a chance. They have not been in long enough.

22 MR. FOURNIER: It has announced plenty
23 of policies.

24 MR. SMITH: There has been a government
25 there for many years, though, I understand -- since
26 Confederation.

27 COMMISSIONER GOBEIL: Are you moving on
28 to another subject, now, Mr. Smith?

29 MR. SMITH: Yes.

30 COMMISSIONER GOBEIL: Could I ask a



1
2 question to clear this subsidy matter. The way I
3 understand you, would it be summing up your idea
4 rightly by saying that as a general principle you are
5 against subsidy and that if subsidy has to be given
6 it is to be only, as you say, as an incentive and not
7 as a thing which should last forever?

8 THE WITNESS: I have been talking about
9 subsidies to industry -- manufacturing industries.
10 I have been excluding the transportation industry from
11 this because the transportation problem is a specific
12 problem. I mean the private sector of the economy --
13 the private business -- and I am afraid I cannot
14 subscribe in general to the subsidization of that, and
15 I think there is one good argument for it and that
16 is in the case of infant industry, but the subsidy
17 then will have to be terminated at some time if it
18 is going to serve this purpose.

19 COMMISSIONER GOBEIL: Nothing permanent?

20 THE WITNESS: Nothing permanent.

21 MR. FOURNIER: I should like to know if
22 this is a personal opinion or the opinion of the
23 government of Quebec?

24 THE WITNESS: Well, that is a personal
25 opinion.

26 COMMISSIONER GOBEIL: Well, the government's
27 opinion is what is written there.

28 THE WITNESS: I said on a similar question
29 that the government had not announced a policy on
30 subsidization of industry.



1
2 MR. SMITH: Q. Well, we will leave that
3 now, Mr. Dube. May I ask you if you are familiar with
4 the topic which is discussed at pages 127 and 129
5 of your brief -- that is, the recommendation that
6 further energetic steps be taken to facilitate and
7 expand winter navigation on the St. Lawrence River? Can
8 I ask you questions relating to that matter?

9 A. I do not know whether I am supposed
10 to answer on that part.

11 MR. FOURNIER: You are the one who knows
12 if you are familiar with it.

13 THE WITNESS: Well, I am familiar with
14 the winter navigation.

15 MR. SMITH: Q. Can you tell this
16 Commission what measures are necessary to make winter
17 navigation on the St. Lawrence River successful?

18 A. I think you have to keep the channel
19 open?

20 Q. What does that entail?

21 A. Well, it entails the timely presence
22 of government ice-breakers.

23 Q. How many?

24 A. I do not know; I am not an expert
25 on that specific aspect.

26 Q. Have you any ideas of the cost of
27 maintaining that service?

28 A. No, sir. Counsel says \$1,500 a day
29 per ice-breaker.

30 MR. SMITH: Q. Would in your view, with



1
2 your rather limited knowledge, the cost be substantial?

3 A. Oh, yes sir.

4 Q. How many ice-breakers would be
5 required?

6 A. Well, the only thing I know about
7 this is that winter navigation has been going on in
8 Quebec for two or three years and they have been
9 successful up until now -- I do not know how economic
10 it has been, but it has been physically successful.
11 If you want to ask me about the economics of the
12 undertaking I am not in a position to answer this.

13 Q. Would you consider this something
14 in the nature of a subsidy?

15 A. If I would consider this in the
16 nature of a subsidy -- well, it depends on how you
17 look at the subsidy aspect. I think if you have ice-
18 breakers they have to be used for clearing a channel,
19 and I think you are doing a very useful operation.
20 You could charge the time by the hour and I think
21 that would be -- I will not consider that as a subsidy.
22 It depends upon the alternative which is open.

23 Q. As I understand it from your
24 submission, the justification for this expenditure
25 on which you cannot tell us the limits in amount,
26 but which would be at least quite substantial, would
27 be to provide more jobs and income for those
28 servicing the ports in your province, and also to
29 reduce what you call the dead season?

30 A. Yes, sir. Well, the winter



1
2 navigation scheme has been advocated in Quebec city,
3 because we have a big seasonal unemployment problem,
4 the same as in the Maritimes and in the Gaspé area.
5 Whatever one city does to improve its position in
6 this respect, I do not think I can object to.

7 Q. You do not consider it in the nature
8 of a subsidy for an artificial stimulation of this
9 kind?

10 A. No, sir.

11 Q. You do not consider it a subsidy?

12 A. No, sir.

13 Q. You know there are two rather good
14 ports on the Atlantic Seaboard, namely, St. John and
15 Halifax which are open all the year round?

16 A. Yes, sir.

17 Q. And they do not require any ice-
18 breaker assistance at any time?

19 A. No, sir.

20 Q. Would you agree that these two
21 Atlantic ports would be justified in asking expenditures
22 of the substantial nature you indicate to keep the
23 St. Lawrence open in the winter time, to encourage
24 more traffic from Halifax to St. John during the
25 summer months?

26 A. Would you repeat that last part?

27 Q. I put it to you that you are asking
28 this Commission to recommend that large expenditures
29 be made to reduce the dead season of the St. Lawrence
30 and to provide more jobs and income for those servicing



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Dube, cr.ex.
(Smith)

20969

1
2 the ports of Quebec in the winter time, and I am asking
3 you if it would be fair and reasonable for the ports
4 of Halifax and St. John to ask for a somewhat similar
5 contribution by the government to provide for more
6 service for the Atlantic ports of Halifax and St.
7 John in the summer time when they have to meet the
8 competition of the St. Lawrence River?
9
10
11
12
13
14
15
16
17
18
19 -
20
21
22 -
23
24
25
26
27
28
29
30



1
2
3 A. Well, sir, there are other aspects
4 to this problem outside of the icebreaker problem.
5 You have to consider the whole problem on its
6 merits.

7 Q. Well, have you --

8 A. And you have to count out the cost
9 and I have nothing to say against Saint John or Halifax
10 on this, but what I want to say is that they should
11 do it and see how the competition will organize
12 itself.

13 Q. In other words that you permit the
14 government; you ask this Commission to recommend to
15 the government that they spend unestimated and unknown
16 sums to keep the St. Lawrence Seaway in the winter
17 time? Is that what you say -- just because it
18 would make some jobs for people in the St. Lawrence
19 ports?

20 A. Well, sir it is what I said -- maybe
21 we will be getting some advantage of ice breakers;
22 maybe we can prove this can be economical in the long
23 run. If you consider Halifax and Saint John,
24 you do not get ice breakers. You may be getting
25 something else, further from markets. If in the
26 end, you consider the whole situation, maybe it
27 could be an economic proposition to navigate from
28 Quebec, but as it is now --

29 Q. Are you making a specific recommendation,
30 may I ask, in this regard, or -- ?

31 A. Well, sir, I can only say what is in
32 the brief about winter navigation, and, no, there is
33



1
2
3 no specific recommendation on this.

4 Q. Well, I wouldn't think there would be
5 a specific recommendation, when you do not know how
6 much it is going to cost, and you have not any studies
7 that you have submitted to this Commission?

8 A. As it is, sir, the recommendation is
9 the following:

10 "That the federal government proceed
11 energetically with its policy of
12 encouraging winter navigation on the
13 St. Lawrence."

14 CROSS-EXAMINATION BY MR. CARTER:

15 Q. I have one point, Mr. Chairman.

16 As I understand it, Mr. Dube, it is your
17 position and Quebec's position, I take it, that in
18 working out a transportation policy ideally a
19 political consideration should be ruled out of the
20 picture?

21 A. Well, yes, as much as possible.

22 Q. My learned friend Mr. Cooper asked
23 you certain questions having to do with the development
24 of what he termed, I believe, a national plan for
25 transportation?

26 A. Yes, sir.

27 Q. As I had it noted, you suggested that
28 it would be better to start at the provincial level.
29 This was your evidence, I think?

30 A. Yes, sir.

Q. Am I to understand, however, that it is
the policy of your province that as an ultimate goal



1
2
3 it agrees that a national policy for transportation
4 should be worked out?

5 A. Well, I think that a national plan,
6 if it is done by our provincial government and
7 federal government at the same time will result in a
8 national policy which would be more consistent than
9 it is today.

10 Q. But, in working it out -- whatever
11 the details may be -- just looking at it in general
12 for the moment, as I understand you Quebec's position
13 is that this sort of thing should start at the
14 provincial level. This is so; is it?

15 A. That is what we think.

16 Q. Again, as an ultimate goal, the working
17 out of an overall national plan? Is this the
18 province's position, that this is the ultimate goal?

19 A. Well, there is no mention in the
20 brief, sir, of a specific plan. There is the
21 idea of planning which is there, but we have not
22 mentioned anything at all about a national plan.

23 Q. Yes. Well, is it then, on the other
24 hand, the province's position that plans in the field
25 of transportation, no matter what the particular
26 medium of transportation may be should be worked
27 out solely at a provincial level?

28 A. Oh, no, sir.

29 Q. Well I had in mind in asking you the
30 question, Mr. Dube, paragraph 245 of the Province's
submission. I asked Colonel Harold a question
yesterday dealing with this, and as I understood



1
2
3 him he suggested this was outside of his particular
4 competence.

5 Now, that paragraph 245 deals, does it not,
6 with integration and coordination of transportation
7 policies?

8 A. Yes, sir.

9 Q. And the paragraph has reference to all
10 media of transportation, does it not?

11 A. Yes, sir.

12 Q. And it ends up saying:

13 "There is need for the formulation
14 of broadly integrated transportation
15 policies, properly coordinated in their
16 application to the various sectors of the
17 transportation industry and the different
18 regions of Canada".

19 Now, am I to understand that Quebec's
20 position is that in formulating these broad and
21 integrated policies that this is not only to start
22 at the provincial level, but is to continue and remain
23 at that level?

24 A. Well, I think it is as I said sir. I
25 said that Quebec -- the provincial government must
26 take the responsibility in that, and the federal
27 government will take the responsibility in it as much
28 as it has authority on certain media of
29 transportation, and also that there should be more
30 cooperation between the different authorities. But I
put them on the same level. I think that we should
start from this problem here and it should present



1
2
3 itself first in the provincial government.

4 Q. But ideally, and ruling out political
5 considerations for the moment, would it not be
6 desirable to have, in order to achieve broadly
7 integrated transportation policies relating to all
8 media of transportation, would it not be desirable
9 to have an overall federal authority planning and
10 formulating these policies rather than having their
11 formulation fragmented among a group of provinces?

12 A. It is not the policy of the Province
13 of Quebec for the time being to have such an overall
14 authority.

15 Q. What objection does the Province of
16 Quebec see to such an overall authority?

17 A. Well, the objection -- I suppose the
18 objection we have is that, again, the problem of
19 jurisdiction. But I am not competent to answer such
20 questions.

21 Q. Let us leave that to one side and
22 restrict ourselves to areas where there is perhaps
23 no question as to jurisdiction: provincial truck
24 transport, rail and air transport, where there is no
25 problem, in any event, as far as jurisdiction is
26 concerned. What objection, may I ask, does
27 Quebec see in the proposal for an overall transportation
28 authority to formulate these desirable policies that
29 your province speaks of?

30 A. I do not think Quebec will have anything
to say against the federal government coordinating
in the field of transportation over which it has



1
2
3 jurisdiction.

4 Q. Including interprovincial transport?

5 A. Well, there is a problem there which
6 I am not sure about: the jurisdiction.

7 MR. CARTER: That is all, Mr. Chairman.

8 BY COMMISSIONER BALCH:

9 Q. I would like that more clarified, if
10 you could, Mr. Dube. How is it possible to have
11 a national transportation policy and have it split
12 amongst various provinces? Do you think it is
13 possible?

14 A. It could result into a national
15 transportation policy, and I think the province in
16 planning should take into account the national
17 interest and try to coordinate their action with the
18 other provinces under the federal government, but I
19 think there is nothing mentioned in the brief about
20 the authority and I do not think the province has
21 considered it.
22
23
24
25
26
27
28
29
30



1
2
3 Q. What I am trying to clear up is what
4 you have in your mind for a national transportation
5 policy. We have been interested in that for a
6 good many years. What kind of a national
7 transportation policy would it be? Would the
8 federal government have the majority control? Would
9 the laws be made by the federal government to govern
10 transportation of various groups?

11 A. I can only say what I said before that
12 every jurisdiction should operate within its limit
13 and supervise the immediate transportation over which
14 it has jurisdiction. There are some problems which
15 present themselves, for instance, our northern
16 development where I think that is really a place
17 where the railroad has something to do. I think that
18 the province should work with the railroad and even
19 with the federal government but I think it should be
20 on a cooperative basis, not nationally at all.

21 Q. In the atmosphere that exists at the
22 present time amongst the provinces -- I think we have
23 found it across the country -- do you think it is
24 possible that a national transportation policy may
25 be set up with jurisdiction split between the federal
26 and provincial authorities?

27 A. Well, you mean -- with the aid of a
28 federal-provincial conference on transportation, is
29 that what you mean? You could have a blueprint of
30 what will happen.

Q. You will have an authority set up in
each province to meet with the federal government, is



1
2
3 that your idea or do you think that is the idea behind
4 it. Would there be a separate authority in all
5 the provinces, a transportation authority?

6 A. Well, I do not think we have considered
7 the problem of provincial authority but when we
8 wrote that we thought it would be done by the Minister
9 of Transport or the government itself within its
10 different departments.

11 Q. You mean the federal government?

12 A. No, the provincial government.

13 MR. McDONALD: Mr. Chairman, I have no
14 questions but I wish to extend my congratulations to
15 the representatives of the Province of Quebec who
16 have been with us here for the excellent job they have
17 done. We are very interested in their views.

18 CROSS-EXAMINATION BY MR. SINCLAIR:

19 Q. Mr. Dube, in the presentation of
20 the Province of Quebec reference was made to the
21 fact that it was their view that there should be
22 in transportation administration at all its levels,
23 more people with French origin, we will say, whose
24 native language is French. You recall that part
25 of the brief?

26 A. Yes.

27 Q. I was going to ask you whether in view
28 of your connection with education Laval and the
29 University of Montreal have established courses to
30 develop specialists in transportation economics and
transportation costing ^{and} statistical analysis with



1
2
3 particular relationship to transportation.

4 A. We have not yet established courses
5 in transportation economics but we plan to do so when
6 we can which may be in four or five years time.

7 Fortunately we have Mr. Harold who is our specialist
8 in transportation.

9 COMMISSIONER GOBEIL: To complete that,
10 I am told that they are waiting for a Canadian Pacific
11 grant.

12 MR. SINCLAIR: Q: Well, Mr. Chairman, maybe
13 the grant we could give would be to assist them in
14 preparation of data and assist them in providing
15 a source for their graduates to work after they get
16 through. That is quite a grant in itself, I suggest.

17 Now, Mr. Dube, a number of questions have
18 been put to you concerning what you would look upon
19 as a national transportation policy. Now, I suggest
20 to you that if I understand your brief correctly and
21 if this is not right then you will please let me
22 know, but if you turn to page 66 and paragraph 247
23 you have there enunciated the national transportation
24 policy as it is viewed by the Province of Quebec
25 in the first sentence:

26 "Transportation policies, to serve
27 Canada's long term interest should heed
28 the laws of economics, the supply of and
29 demand for transportation service,
30 cost and price of transportation service,
investment in transportation and a
reasonable return thereon, etc."



1
2
3 Now, I have looked at the French version
4 and I think it is very close to that except the
5 word "etc." is not in there and I think perhaps
6 that might be a mistype. Is that what you had
7 in mind as the basis of the national transportation
8 policy in the views of the Province of Quebec?

9 A. Well, I suppose we have written it
10 there so that is what we have in mind.

11 Q. Now, one of my friends has been asking
12 you a number of questions about the effect of
13 transportation as a matter of getting produce into
14 markets and as an economist I think we can agree that
15 while transportation cost is one factor in many
16 instances there are factors which are of far greater
17 overriding importance than the transportation cost

18 A. Yes, sir.

19 Q. And indeed, notwithstanding distance
20 in Canada and the transportation cost associated with
21 distance, Canada has prospered throughout its
22 breadth to a remarkable degree.

23 A. Yes, sir.

24 Q. And economic facts are clearly available
25 to demonstrate this?

26 A. Yes sir, I think we have some
27 statistics.

28 Q. In paragraph 53 at page 14 the question
29 of distance and transportation is synthesized, I
30 suggest to you in this way:

"The fact of the matter is that,
long distances notwithstanding, rapid



1
2
3 growth of the Canadian market and
4 expansion of secondary industries
5 have increased materially the demand
6 for foodstuffs and industrial raw
7 materials, and increasing quantities
8 of such products have moved from the
9 western and eastern provinces to
10 central Canada. Hence, distance
11 notwithstanding, and in part because
12 of increased efficiency in the
13 transportation system, the exchange of
14 goods and services between the different
15 regions of Canada has increased
16 materially, to the benefit of all
17 provinces of Canada."

18 A. Yes, sir.

19 Q. Now, just one final point and that
20 is this: from your study and your knowledge of
21 Canada would you agree that railway transportation
22 is not a declining industry in Canada?

23 A. Well, that is what we have been trying
24 to prove in this section.

25 Q. I recognize that. You as a Canadian
26 and close to the Canadian scene are not one of those
27 who look upon the railway industry as decadent
28 or in decline?

29 A. No, sir, I think we have more
30 development to come in the field of railroad
transportation in Canada and in the Province of
Quebec.



1
2
3 Q. And in other parts of the country
4 that you have studied as well?

5 A. Yes.

6 MR. SINCLAIR: Thank you very much.

7 BY COMMISSIONER GOBEIL:

8 Q. Mr. Dube, at the beginning of the
9 submission of the Province of Quebec you relate the
10 basic principle. In your paragraph 10 on page 3
11 you emphasize the fact that various transportation
12 media must have equal opportunity. Mr. Harold
13 this morning was mentioning in cross-examination by
14 Mr. Sinclair, I believe, that he believed in
15 equal responsibilities and equal privilege. Do you
16 think the railways have equal opportunities compared
17 with the truck when they have to build their own
18 railroad and the trucks pay only part of the truck
19 road on which they travel?

20 A. Well, the question was put to Mr.
21 Harold yesterday and I think his answer was that
22 it was rather difficult to decide whether trucks
23 paid for enough of the roadbed or whether they paid
24 too much. I think I will give the same answer as
25 Mr. Harold. It has to be decided whether there
26 is a subsidy by way of road construction.

27 Q. From your experience would you say
28 the trucks are not paying 100 per cent of the road?

29 A. Well, it has not been proved they are
30 not paying the full costs of the road.

Q. Assuming they are not, do you think the
railways should be put on the same basis?



1 A. Well, that is a hypothetical question
2 and I would rather not answer it.

3 Q. At page 9, paragraph 31, you speak of
4 the Canadian economy as being like a chain whose total
5 strength is affected greatly by the strength of its
6 weakest line and that all provinces of Canada have a
7 vital interest to see that all sectors of Canada participate
8 in the economic development of the country. Would you
9 think that they take this into consideration, that if
10 the Maritimes Freight Rates Act is going to level the
11 economy of the Maritimes that the country would benefit
12 as referred in that paragraph, that it is justification
13 enough to keep it the way it is or even increase.

14 A. Well, the Maritimes Freight Rate Act was
15 discussed in the brief and I think it was discussed
16 with Mr. Harold and the problems were mentioned in
17 the subsidies to transportation versus general tax
18 concession. I think the discussion is complete enough
19 but I should say that I think we should have strong
20 regions in Canada; if we want to have a prosperous Canada
21 all regions should be strong and have the highest level
22 of living.

23 Q. Most of the questions were answered
24 by Mr. Harold except the last one which was also asked
25 by Mr. Cooper and Mr. Carter and this is on paragraph
26 238. In the last sentence you said:

27 "There is nothing in the transportation
28 problems facing the Province of Quebec that
29 a well planned and properly coordinated
30 program of transportation development
and adequate policies pursued by the
provincial and federal governments
and the transportation industry itself



1
2
3 will not alleviate."

4 When Mr. Carter referred you to the planning
5 board which would centralize all those various
6 agencies for better coordination I understand that
7 you indicated that whichever government or agency
8 has authority will have to apply it and such being
9 the case that you do not see the use of having such
10 a big regulatory board and that the Province of
11 Quebec probably will not go along with it.

12 A. Well, we have not considered such an
13 authority.

14 Q. I understand your point of view but
15 do you think that the Province of Quebec will think
16 that there will be an interesting area of advantage
17 obtained from some kind of planning organization which
18 would be advisory?

19 A. You mean just an advisory council or
20 something of that sort?

21 Q. Yes, of all the transportation agencies
22 whether industrial or governmental?

23 A. I think this would follow from the
24 idea of the cooperation. This would be one way of
25 instituting more cooperation between different
26 governments.

27 Q. But there is nothing said in the
28 submission of the province about that?

29 A. There is nothing said about it.

30 Q. Do you know enough of the government's
policy to say if such a Board, which would be only
advisory, would be a welcome thing?



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Dube, cr-ex.
(Gobeil) . -

20984

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

A. No sir, I do not know enough about it.

COMMISSIONER GOBEIL: Thank you, that is

all.



1
2
3 BY COMMISSIONER MANN:

4 Q. How would you bring about this
5 coordination? Here you have, let us say, ten
6 regulatory authorities -- let us assume that one
7 example. Then, you have your transport board and
8 Board of Transport Commissioners and so on, and
9 all these various agencies. Do you just wish they
10 could get together and hope they could get together,
11 or can you suggest something as to how they could
12 get together?

13 A. I think that is not only the problem
14 of the agencies. It is more complicated if you
15 introduce the government departments in there.

16 Q. Let us add them into the pot, and
17 let us also for good measure put the railways and the
18 trucking industry and the inland carriers in the
19 same situation. How would you evolve a
20 mechanism that would make the pieces fit together
21 and coordinate them?

22 A. I think this is getting into specifics.
23 We have just expressed a wish that there be more
24 cooperation. We realize it may be difficult. We
25 hope there would be more cooperation.

26 Q. But if somebody with a gigantic mind
27 evolved a procedure to bring this about, you would be
28 quite happy?

29 A. There could be more limited cooperation
30 between the provincial transportation boards --
cooperation on a limited basis. I think this could
be easily organized.



1
2
3 Q. In location theory, transportation
4 costs, I suppose, are the determinant of location?

5 A. Yes, they may be a factor in
6 centralization or decentralization as the case may be.

7 Q. But they are not the only factor in
8 location, or they are not the only determinant of
9 location. There are others such as availability of
labour, the resource base?

10 A. Yes, sir.

11 Q. Supposing you had an area with a
12 narrow resource base, what would you do with it if
13 you wanted to bring about decentralization of
14 industry?

15 A. Decentralizing industry to that area?

16 Q. Let us specify it a little more: I
17 suppose what you had in mind when talking about
18 decentralization in your brief in Quebec was the
19 wider dispersal of manufacturing, particularly
labour intensive manufacturing?

20 A. Yes, that is what we had in mind --
21 not with any view as to whether it was labour
22 intensive or not. It was more a question of
giving more industry to some areas.

23 Q. Why would you want to give more
24 industry to some areas?

25 A. I suppose the labour aspect of it
26 would be important, but the money that is brought
27 in by industry does not go only to labour.

28 Q. It would be particularly important
29 to areas where you have seasonal unemployment as
30



1
2
3 a predominant feature?

4 A. Yes.

5 Q. And you would strive to get labour
6 intensive industry rather than capital intensive
7 industry in those areas?

8 A. Yes, I suppose so.

9 Q. That would be ideal from the economic
10 point of view?

11 A. Yes, that is what has been happening.

12 Q. Do you find veryoften these labour
13 intensive industries are market oriented?

14 A. Well, the experience we had in Quebec
15 -- we have had a bit of decentralization of the
16 textile industries going to smaller mills and
17 smaller localities -- going further away from
18 markets.

19 Q. Let us say secondary steel manufacturing,
20 for instance: you gave us an example earlier
21 when you mentioned the lack of electricity in the
22 Gaspe penninsula?

23 A. Yes.

24 Q. Supposing you had cheap hydro electric
25 power: would you think you would get the primary
26 and secondary steel production around Perce?

27 A. I suppose this would be debatable.
28 There has been a big debate in Quebec whether it
29 should be more to the east, and this could happen
30 under a policy of decentralization, but I think
as far as the steel industry is concerned it has
some advantages in being located closer to the



1
2
3 market.

4 Q. And that would bring in a lot of
5 labour intensive industry? Would you think it
6 would not be right to subsidize such an industry
7 where its natural economics are really dictated by
8 its closer location to the market, as an economist?

9 A. I suppose it could be subsidized
10 because they don't serve the purpose of developing
11 the region merely because they come to a region
12 which is already pretty much developed.

13 Q. You gave us the benefit of your opinion
14 on subsidies and you stated categorically, as I
15 recall it, you were against subsidies except in
16 the case of the infant industry situation?

17 A. Yes, in a case where a big economic
18 development in a region could come from a big
19 industry like the iron and steel industry. In
20 that case there are some theories -- we think a
21 subsidization case could be made.

22 Q. This would be the pump priming
23 argument idea?

24 A. Yes, that is right.

25 Q. Do you think there is a pump priming
26 argument inherent in the feed grain subsidy?

27 A. I don't think so, sir. I suppose
28 the feed grain subsidy has a good effect in Quebec.

29 Q. I can't quite hear you, Mr. Dube.

30 A. The feed grain subsidy -- I don't
know whether I can put it in your terms or not, but
as far as I see it, it has a good effect in



1
2
3 Quebec because it encourages the production of
4 livestock instead of the production of grain,
5 and people have been trying to raise grains now
6 when they could not grow grains.

7 Q. Why can't they grow grain? Is the
8 resource base too narrow?

9 A. Because of the climate and the
10 quality of the land and so on and forth.

11 Q In other words, the resource base in
12 Quebec is not suited to the economic production of
13 grain?

14 A. I think so, sir except in certain
15 areas.

16 Q. So, therefore, it would be uneconomic
17 for Quebec to raise livestock because its own
18 resource base does not permit the raising of livestock?

19 A. It is better to raise livestock than
20 to raise grain.

21 Q. Can you raise grain economically in
22 Quebec without grain -- or, with the grain you can
23 grow locally? Can you compete with western
24 Canada in meat production if you were to rely on
25 unsubsidized grain?

26 A. No, I don't think so, sir. There
27 could be some competition -- it is possible; but
28 I think that the feed grain subsidy certainly
29 has that effect of encouraging livestock production
30 in Quebec with the production of livestock in the
west.

Q. In other words, you have a case here ,



1
2
3 have you not, economically speaking, where the
4 lack of a resource base is being compensated for by
5 a subsidy given by the state?

6 A. But I want to say it has a good effect
7 in that it discourages the farmer from trying to
8 do things he can't do. If it is impossible to
9 raise grain he should not try to raise grain. It
10 is better for him to do so by having subsidy on the
11 grain coming from the west than letting him grow
12 the grain when he can't succeed. What I want to
13 say is that it produces a situation where your
14 resources in Quebec are better utilized.

15 Q. Wouldn't it be better for the country
16 as a whole -- wouldn't it be a better allocation of
17 economic resources if neither grain nor livestock
18 were produced in Quebec, and the farmer were to
19 devote himself to other activities if the resource
20 base is too narrow?

21 A. I am not sufficiently familiar with
22 agriculture. As to the specific figure of the
23 subsidy, I haven't had a chance to talk to the
24 Department of Agriculture, but it seems to have had
25 a good effect. I have talked to some agricultural
26 economists on that, and that is the answer I get.

27 Q. The reason I ask you is because the
28 Government of Quebec makes a specific recommendation
29 with regard to feed grain, namely, that it be put
30 on a permanent basis and increased, and this is why
I asked you these questions.

A. Yes, sir.



1
2 COMMISSIONER GOBEIL: Apparently, could
3 it be true that if the feed grain was not there Quebec
4 and Ontario would get their grain for the same price
5 from the United States?

6 THE WITNESS: I do not know, sir.

7 COMMISSIONER MANN: Q. You had a discussion
8 with Mr. Sinclair about the aims of national policy
9 in transportation, and Mr. Sinclair quoted you paragraph
10 247 at page 66 of your submission where you in a
11 sense -- and I am paraphrasing here -- came to the
12 conclusion that the country's long term interests in
13 transportation are best served if transportation is
14 dealt with purely on a economic basis without the
15 intrusion of other elements. Am I paraphrasing this
16 correctly?

17 A. I think that took a lot of factors
18 into consideration outside of purely economic factors,
19 but we certainly gave the economic factor most
20 important consideration.

21 Q. And that, I suppose, comes out on
22 page 67, which is over the page, in paragraphs 249 and
23 250, does it not?

24 A. Yes, sir.

25 Q. There you depart from pure economic
26 terms such as supply and demand, cost and price,
27 investment in transportation and return on transportation
28 and so on. There are other considerations that the
29 government of Quebec think should enter into
30 transportation policy?



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

A. Yes, sir.

COMMISSIONER MANN: I think that is all I have.

THE CHAIRMAN: Thank you, Mr. Dube.

THE WITNESS: Thank you very much, Mr. Chairman.

MR. FOURNIER: That is the submission of the province of Quebec, sir, and I wish to express the government's thanks again for having granted to us so much delay, and also to the parties -- the railways and other provinces -- who have been kind enough to wait for us and even accept our submission three or four days after the date set for it. So, we are extremely grateful for the courtesy of the Commission, and we hope that the submission of the province will be of some use to the Commission in understanding the problems of the province of Quebec as they are expressed in the submission and as supported by the witnesses.

THE CHAIRMAN: You referred to delays: the delays were granted grudgingly by the Commission.

MR. FOURNIER: I realize that, sir.

THE CHAIRMAN: However, you were not idle, and the effort was worthwhile.. We are glad to have had you and to have heard you and your witnesses. Thank you very much.

--- Adjournment ---

Hon C. P. McTaggart

ROYAL COMMISSION

ON

TRANSPORTATION

HEARINGS

HELD AT

OTTAWA

VOLUME No.:
127

DATE
9 JAN 1961

OFFICIAL REPORTERS
ANGUS, STONEHOUSE & CO. LTD.
372 BAY STREET
TORONTO
EM. 4-7363 KNOXVILLE TEM. 4-5865



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

I N D E X

Page No.

PROCEEDINGS OF COST CONFERENCE ON
VOLUME II OF THE SUBMISSION OF MR.
W.B. SAUNDERS ON BEHALF OF CERTAIN
GRAIN MARKETING ORGANIZATIONS.

20995

SAUNDERS, W.B.

Direct examination
By Mr. MacKimmie

21008

Cross-examination
By Mr. Sinclair

21020

NO EXHIBITS IN THIS VOLUME



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held
in the Court Room, Board of
Transport commissioners Offices,
Ottawa, Ontario, on the 9th
day of January, 1961.

---O---

COMMISSION

Mr. M.A. MacPherson	Chairman
Mr. H. Anscomb	Member
Mr. A.H. Balch	Member
Mr. R. Gobeil	Member
Mr. H.A. Mann	Member
Mr. A. Platt	Member

COMMISSION COUNSEL

Mr. A.G. Cooper, Q.C.
Mr. G.S. Cumming

Mr. F.W. Anderson	Secretary
Major N. Lafrance	Assistant Secretary

---O---



Ottawa, Ontario,
Monday, January 9, 1961

--- On commencing at 10:00 a.m.

THE CHAIRMAN: Order, please. Mr. Cooper?

MR. COOPER: Mr. Chairman, in accordance with the ruling of the Commission with respect to the cost conference made on June 10, 1960 and as appeared in Volume No. 80 commencing at page 14070, the Chairman of the cost conference Dr. Armstrong has reported to the Commission points of agreement and disagreement arising out of the proceedings of the cost conference on Volume II of the submission of Mr. W.B. Saunders on behalf of certain grain marketing organizations. In accordance with the Commission's ruling cross-examination is limited to points of disagreement. I should like to have the report containing the points of agreement and disagreement to which I have referred taken into the record as read.

THE CHAIRMAN: Have you furnished counsel with copies?

MR. COOPER: I have furnished Mr. Sinclair and Mr. Frawley with copies. I have handed a copy this morning to Mr. MacKimmie but I understand that some time ago a report of this section of the cost conference was circulated to the cost experts involved so that I consider it safe to say that notice has been given to the cost experts some time ago with respect to these points of agreement and disagreement. Notice has been given to counsel as I have indicated.

THE CHAIRMAN: Well, that will be taken in.



ROYAL COMMISSION ON TRANSPORTATION

January 5, 1961.

Proceedings of Cost Conference on Volume II
of the Submission of Mr. W.B. Saunders on behalf
of Certain Grain Marketing Organizations.

The page references which follow are in the first place to the pages of the memorandum submitted by Mr. Saunders prior to his appearance before the Commission. The second set which follows is a reference to the Commission hearings. The line references are the same in each case.

Points of Agreement

A: Agreement was reached on the following pages without amendment:

- 1) p. 1 (p.19462)
- 2) p. 8 (p.19469)
- 3) p. 10 (p.19471)
- 4) p. 26 (p.19489)
- 5) p. 27 (p.19490)
- 6) p. 48 (p.19511)
- 7) p. 49 (p.19512)

B: Agreement was reached on the following amendments:

- 8) p.2, line 5
(p.19463) - Substitute "The relatively new use of the" for "new and important"



- 1
- 2
- 3 9) p. 3, line 15
- 4 (p.19464) - Substitute "common" for
- 5 "joint"
- 6 10) p. 4, par. 2
- 7 (p.19565) - A more acceptable example
- 8 will be found by John Stenason and W.B.
- 9 Saunders to replace the train cost
- 10 which implicitly assumes 100 per cent
- 11 variability.
- 12 11) p. 5, line 6
- 13 (p.19466) - Substitute a "cost of
- 14 crossing protection" for "president".
- 15 12) p. 5, line 9
- 16 (p.19466) - Substitute "the need to
- 17 protect the crossing" for "the dependence
- 18 of the railway upon the president"
- 19 13) p. 11, line 14
- 20 (p.19472) - Substitute "numerical" for
- 21 "statistical"
- 22 14) p. 11, line 23
- 23 (p.19472) - Substitute "vary over extended
- 24 periods" for "vary in the over-extended
- 25 periods".
- 26 15) p. 18, line 15
- 27 (p. 19481) - Substitute "that they would
- 28 be candidates for abandonment" for
- 29 "alleged they would be abandoned".
- 30 16) p. 18, line 17
- (p.19481) - Substitute "cost per unit of
- traffic is" for "unit costs".



- 1
2
3 17) p. 19, line 6
4 (p.19482) - Substitute "tracks" for
5 "facilities".
6 18) p. 19, line 7
7 (p.19482) - Substitute "taken up" for
8 "curtailed"
9 19) p. 19, line 13
10 (p.19482) - Substitute "ordinarily" for
11 "normal".
12 20) p. 28, line 2
13 (p.19491) - Delete "no justification was
14 advanced on behalf of the double weighting
15 of passenger gross ton-miles relative to
16 freight".
17 21) p. 29, Line 11
18 (p.19492) - Substitute "is again" for
19 "while".
20 22) p. 29, line 12
21 (p.19492) - Delete "is again in the
22 direction expected a priori".
23 23) p. 29, line 38
24 (p. 19492) - Delete "a healthy".
25 24) p. 31, line 22
26 (p.19494) - Substitute "more reasonable"
27 for "well within reason".
28 25) p.33, line 5
29 (p.19496) - Substitute "minimize the impact
30 of switching on the coefficients on the
running variables" for "keep the
coefficients of the running variables from
reflecting switching costs".



26) p. 45, lines 3 and 4

(p.19508) - Delete point 2 completely

27) p. 45, line 26

(p.19508) - Delete "That Exhibit 142 failed fully to disclose the number or percentage importance of "solid" grain trains, as it purported to do;"

28) p. 47, line 6

(p.19510) - Insert following the word "error": "as it relates to the loaded movement from Winnipeg to Fort William"

29) p. 50, lines 35 and 36

(p.19513) - Substitute "proportionately larger" for "disproportionately large"

C: Subject to a check of the statistical significance of the R^2 and "t" there is agreement with the paragraph containing the following changes, after amendment.

30) p. 29, line 12

(p.19492) - Delete "is again in the direction expected a priori".

Insert after "fit" " R^2 "

Delete "markedly"

Points of Disagreement

The exactitude or precision of the cost statistics is in controversy between the railways on the one hand and the Provincial Consultants on the other.

The following points are all related to this basic issue but do not list all the detailed objections which were raised.



1
2
3 31) p. 3, line 1

4 (p.19464) - The Canadian Pacific objects
5 to the contention that studies do not
6 produce "the answer".

7 32) p. 4, line 5

8 (p.19465) - The railways object to the
9 contention that the use of various
10 techniques of allocation or proration
11 inject some lack of precision in the
12 results.

13 33) pp. 5, 6, 7

14 (p. 19466-8) - The railways object to the
15 implication which they feel is contained
16 in this section that cost cannot be
17 determined unless trains are fully
18 loaded.

19 34) p. 9, line 6

20 (p. 19470) -

21 35) p. 11, line 25

22 (p.19472) -

23 36) p. 12, line 1-2

24 (p.19473) -

} - The railways object
to the statements that
there is greater
uncertainty in
estimating long run
cost than in estimating
short run cost.

25 Miscellaneous Disagreements in Principle.

26 37) pp. 12, 13, 14

27 (p.19475-7) - The railways object that
28 this section implies that the costing
29 techniques of the railways have been
30 developed purely for rate setting purposes
and not for management purposes. Mr.



1
2
3 Saunders stands firm on his contention
4 that the costing techniques are not being
5 utilized throughout the railways for
6 management purposes in the way he has
7 suggested and for the alternate uses
8 which are desirable. Allied differences
9 of opinion exist with regard to page 21
10 (19484) lines 3-5, and 23 (19486) lines
21-24.

11 38) pp. 14-17

12 (p.19477-9) - The railways object to the
13 suggestion that standard costs rather than
14 actual costs should be used in order
15 to cost the study traffic.

16 39) p. 18, lines 1 and 2

17 (p.19481) - The Canadian Pacific is
18 prepared to maintain that there is
19 little excess of track in existence
20 today. The CN does not object to
21 Saunders' statement.

22 40) p. 19, line 6

23 (p.19482) - A question of fact
24 developed of whether miles of track
25 are being taken up on solely related
26 lines.

27 41) p. 19, line 9

28 (p.19482) - The disagreement here is the
29 same as that reported under point 39.

30 42) p. 20, line 2

(p.19483) - The railways have served notice
that they may ask for a complete
enumeration of these criticisms.



Disagreements on the Development of the Track, Expense
Regressions.

43) p. 20, line 12

(p. 19483) - Canadian Pacific disagreed with the statement that "Canadian Pacific Railway did not carry their analysis sufficiently far."

Canadian Pacific believe that the refinements introduced by Mr. Saunders have not improved the analysis of track maintenance expenses.

44) p. 29, line 36

(p. 19492) - The railways may challenge the statement that all refinements have contributed to the "explanatory" power of the regressions.

45) p. 30

(p. 19493) - Saunders maintains that there is an important difference between the minimum maintenance cost for main and branch track. The CP argues that gross ton-miles is a good variable to account for the level of maintenance of any railway lines. They argue that their track is classified every three years on the basis of gross ton-miles and this alone determines the standard of maintenance. Saunders argues that maintenance standards are a function of the classification into main and branch lines and that the classification depends not only on gross ton-miles but also on the existence of passenger service, speed of trains and other considerations.



1
2
3 46) p. 32, line 12

4 (p. 19495) - The Canadian Pacific objects
5 to the contention that road and yard
6 switching should give rise to markedly
7 different road maintenance costs and
8 says that there are no a priori reasons
9 why there should be such a difference.

10 47) p. 32, line 19

11 (p.19495) - The railways question the
12 first sentence of the paragraph and Mr.
13 Saunders has agreed to consider the
14 exactitude and clarity of the sentence.

15 48) p. 33

16 (p.19496) - Equation 7 - the Railways
17 reject on a priori grounds to the
18 relationship between the coefficients for
19 yard and road switching.

20 49) p. 34-37

21 (p.19497-19500) - The parties disagree on
22 the appropriateness of taking into account
23 geographic differences in maintenance costs.
24 Mr. Saunders has constructed an index of
25 grades and curves to reflect topographical
26 differences. The CN accepts in principle
27 the usefulness of geographic variables and
28 has used miles of tunnels as such a
29 variable. The CP maintains that the
30 only variable which might be significant
is curvature but that on engineering
grounds they do not believe it would be



1
2
3 of sufficient importance to warrant the
4 many months of work which would be
5 required to work out an appropriate
6 index. This is the same point which
7 was reported in connection with the
8 evidence of Dr. Borts (see point 7 -
9 transcript, p. 20305 line 3).

50) pp. 38-39

10 (p.19501-2) - The railways objections
11 to the variables used in Equation 11,
12 include all those listed above in
13 connection with other equations. In
14 addition they object to the claim that
15 Equation 12 marks an improvement on
16 Equation 11 on the grounds that it is
17 merely an analytic transformation of
18 Equation 11 since the multipliers used
19 in condensing the variables have not been
20 found independently, they argue that the
21 "t" values for Equation 12 are in fact
22 unknown and that therefore there is no
23 way in which to judge the significance
24 of the coefficients.

51) p. 40-43

24 (p.19503-6) - The objection to the final
25 Equations 14 and 15 include all those
26 raised above. In addition the railways
27 object to the assumption that the
28 passenger gross ton mile coefficients
29 should have six times the weight of gross
30



1
2
3 ton mile coefficients. The fundamental
4 point at issue here is whether a
5 passenger gross ton mile causes twice or
6 six times as much maintenance as does a
7 freight gross ton mile. The engineering
8 rule cited was that the wear and tear on
9 track is in proportion to the square of
10 train speed, hence if the average passenger
11 train car travels 1.4 times the average
12 speed of a freight train car, the wear and
13 tear caused by the passenger gross ton
14 mile will be twice (1.4×1.4) the wear-
15 and-tear caused by a gross ton mile of
16 freight. Mr. Saunders argues that in
17 addition to the speed factor, there are
18 other reasons why the existence of
19 passenger service requires additional
20 maintenance expenses. If track is
21 maintained at a higher standard for
22 passenger service than it would be in its
23 absence, then passenger trains not only
24 cause more wear and tear per gross ton
25 mile than do freight train but the wear
26 and tear caused by both passenger and
27 freight trains takes place on track which
28 is more expensive to maintain, thus the
29 cost of maintenance caused by passenger
30 service is compounded above that
indicated by simple speed considerations.



1
2
3 Canadian Pacific said that, on the basis
4 of engineering analysis, the only item
5 of track maintenance expense which would
6 be caused by the movement of passenger
7 trains which would represent a higher
8 standard, the cost of which might be
9 reflected in freight, traffic, would be
10 super-elevation on curves, which is of
minor consequence.

11 This issue is closely related to that
12 raised above in point 45.

13 52) p. 19, line 15

14 (p. 19482) - The objection is the same as
15 that given above in point 51.

16 53) pp. 44-7

17 (p.19507-10) - On the basis of certain
18 definitions learned at the Conference,
19 certain changes listed above (points 24,
20 25, 26) were agreed upon. The Canadian
21 Pacific objects that even if the
22 calculations presented on p. 45 (19508)
23 are correct, the conclusion in the last
24 paragraph of p. 47 (19510) should be
confined strictly to grain moving from
Winnipeg to Fort William.

25 On the basis of three studies which have
26 recently been concluded, the CP maintains
27 that for other directions and other areas,
28 grain moves in train of less than average
29 weight so they argue they are correct in
30



1
2
3 assuming that grain moves in train of
4 average weight for the system as a whole.
5 The evidence for these statements was
6 not produced at the Conference and until
7 he has studied it, Mr. Saunders has
8 reserved any opinion on it.

54) pp. 51-55

9 (p.19514-18) - During the discussion on
10 the CP work papers on handling car-days
11 it developed that there appears to have
12 been a difference between the definition
13 of active car days used in the 3,700 car
14 sample and the 300 car sample. The effect
15 of this would be to bias the number of idle
16 days attributed to the grain trade. The
17 CP is studying this point.

18 The CP allocates all of the idle time
19 against active car days "on-line". When
20 a CP car goes off-line, i.e. to some other
21 system, the CP is paid a flat per diem
22 fee. Included in this fee, which is
23 determined by the Association of Railroads,
24 is an allowance for 10 per cent idle days
25 spent on-line which are assumed to be
26 attributable to the off-line movement.
27 The CP has taken the position, by
28 implication at least, that the per diem
29 allowances do not make adequate allowance
30 for idle time and that therefore charges
of idle time (less 10 per cent of the days



1
2
3 which the cars spend off-line) must be
4 charged against active car day on line.
5 Mr. Saunders argues that on-line idle
6 time should be allocated against all
7 active days whether on or off-line, and
8 that failure to do so, charges the study
9 traffic with any loss incurred in any
10 traffic which goes off-line.

11 Mr. Saunders also points out that the
12 historical allowance of 10 per cent is
13 irrelevant since it is not concerned with
14 the actual experience of the CP railroads,
15 itself; that if the per diem rate is for
16 example twice the actual average daily
17 car cost, the railways receiving the
18 per diem rental would in fact be
19 receiving an allowance for on-line idle
20 time equal to 100 per cent of the off-
21 line time. On the other hand, if the per
22 diem allowance is less than the actual
23 average daily car cost, the railway is
24 receiving no allowance for idle time
25 on-line as a result of off-line service.
26 The Commission staff has asked the
27 railways to estimate the percentage of the
28 study traffic which goes off-line.
29 The CP allocates idle time on the basis
30 of active car days. Mr. Saunders argues
that an allocation on the basis of cars
loaded would be more appropriate. The



1
2
3 discussion failed to satisfy either side.
4 It is apparent that at least some of the
5 idle time is a function of the number
6 of loads and not of the number of active
7 days, for example days spent in cleaning
8 cars. Further argument on this point
9 and attempts at quantification are
10 necessary.

11 NOTE: The participants in the Cost Conference did not
12 discuss the contents of pages 56 to 58 (19519-19521)
13 as these pages were deemed to be outside the terms of
14 reference of the conference.

15 Since pages 20 to 25 (19483-19488) contain
16 a summary of the material found in later pages of the
17 submission, it was not explicitly discussed.

18 THE CHAIRMAN: Yes, Mr. MacKimmie.

19 MR. MacKIMMIE: Mr. Saunders.

20 MR. W.B. SAUNDERS, called:

21 MR. MacKIMMIE: Now, Mr. Saunders before
22 you start answering your questions in cross-examination
23 now on your volumes 1 and 11 or the last part of
24 volume 1 and all of volume 11 which were put into the
25 record in both your and my absence, there are a couple
26 of general things I would like to get from you.

27 MR. SINCLAIR: Are you explaining the data?

28 DIRECT EXAMINATION BY MR. MacKIMMIE: I am not
29 putting in new material, I merely want to emphasize
30 some of the things that are in the volume.

Q. At page 133 of Volume 1, Mr. Saunders,
you indicate generally what you feel the problems are



1
2
3 in railway transportation in Canada. I wonder if you
4 would tell us what the principle ones are as
5 indicated in your volumes 1 and 11?

6 A. If I were to summarize both volumes in
7 a few words I would say that my analysis indicates that
8 problems of the Canadian railways are attributable to
9 three broad categories. The first category is
10 problems arising from decisions made by past governments;
11 second, problems arising because of competition
12 between the Canadian Pacific and Canadian National and,
13 third, problems arising because of a lack of an over-
14 all transportation policy in the existing government
15 structure.

16 Q. It may well be in the text here but in
17 what way do you think these three factors contribute to
18 the transportation problems in Canada?

19 A. A very important result of all three
20 taken together is that Canada has excess transportation
21 capacity. I believe it is clear that such an excess
22 of transportation capacity results in higher operating
23 costs and also leads to a demand for greater revenues
24 or for -- it leads to higher revenue needs. Now,
25 another way of visualizing this is to ask ourselves
26 what the picture would be if we were starting all over
27 again today knowing what we know now and trying to
28 recreate a Canadian transportation system. I think
29 anybody who studies the figures would have to come
30 to the conclusion that Canada's railway system would
contain a great many fewer miles of line, I mean,
miles of line both main line and branch line. I



1
2
3 think it follows from our analysis of the total
4 economic picture in Canada that you would also have
5 a considerably smaller passenger service, considerably
6 reduced volume of passenger service in terms of train
7 miles, car miles and the like. I believe our
8 analysis shows that if that were done we would have
9 considerably smaller passenger deficits.

10 Now, a corollary of a rebuilding of the
11 transportation system with today's knowledge, today's
12 technique, knowhow, and today's appreciation of
13 competition is we would rationalize our traffic
14 flow in Canada to concentrate the volume on principle
15 lines and particularly with the small shipments traffic
16 I believe we would find a considerably smaller shipment
17 deficit so there would be a smaller cost revenue
18 problem. These items are not exactly additive but
19 we can get some idea of the magnitude of what is
20 involved in the re-orientation of the railway
21 system. Based on my volume 1 analysis I have jotted
22 down a few figures on this point; the passenger and
23 small shipments deficits alone represent a burden of
24 some \$224 million for both the Canadian National and
25 the Canadian Pacific combined.

26 Q. That is, these deficits are calculated
27 in the same manner in which the grain study was made
28 by the railways?

29 A. Yes. That is implicit in all my reference
30 to cost and revenues throughout.

THE CHAIRMAN: That is the yardstick?

THE WITNESS: Yes sir. I am merely using



1
2
3 that to maintain a consistent set of figures and
4 values in the various cost studies throughout. That
5 figure is some \$224 million. Now, we can have
6 some further magnitudes on the meaning and the
7 significance of duplicate facilities or excess track or
8 track miles that would be eliminated if we had a
9 rationalized system. To illustrate that, if we
10 take the figure of 5,000 miles as a reasonable goal
11 for a rationalized system, the annual cost of the
12 constant track expenses related to those 5,000 miles
13 would be about \$13 million; again using the
14 technique in the C.P.R. studies.

15 Q. The only thing about that, this
16 Commission has to determine problems not with a
17 de novo railway so I wonder how realistic this is
18 to look at a system de novo. This Commission is
19 faced with the problem of looking at the present
20 system.

21 A. Yes sir, and I think I am very conscious
22 of that, life is where you find it and we do have
23 problems. Canada's transportation system is here,
24 industries have located where they located because
25 they found the railway system there and they moved in,
26 communities were developed and the Canadian economy
27 in a considerable measure depends on the facts of
28 Canada's railway system as it is today. I do not
29 think anybody can just stand up and say all that is
30 unfortunate and irrelevant, we are just going to
go through with a scythe and destroy the communities
and all the related social and other institutions that



1
2
3 go with it. I do not believe it would be possible for
4 anyone to urge seriously any wholesale abandonment
5 program to solve this problem.

6 COMMISSIONER ANSCOMB: Wholesale what?

7 THE WITNESS: Abandonment program.

8 MR. MacKIMMIE: I suppose one could look
9 at the other side of the coin too; we cannot take
10 a completely defeatist attitude at this time because
11 we have this system.

12 MR. SINCLAIR: I do not know what my friend
13 is doing? Is he examining-in-chief or not because
14 it is a rather unusual way of doing it.

15 MR. MacKIMMIE: What is unusual about it?

16 MR. SINCLAIR: Just the way you are putting
17 the questions to him.

18 MR. MacKIMMIE: I am sorry I do not know how
19 to put questions but I am sure I can be corrected if
20 I am wrong.

21 MR. SINCLAIR: It is all on the record and
22 they had their opportunity to explain this months
23 ago and I do not see why they are putting it in again.

24 MR. MacKIMMIE: We had our opportunity but
25 you will recall it was deprived by my learned friend
26 getting up and screaming about the costs and I was not
27 able to ask anything.

28 MR. SINCLAIR: Well, you had a date --

29 MR. MacKIMMIE: You know as well as I do
30 Mr. Saunders was told he had a cost conference on the
14th and this Commission sat to finish up other people.
We would never have got through with Mr. Saunders.



1
2
3 Furthermore, is my learned friend saying I cannot
4 ask my witness general questions?

5 THE CHAIRMAN: You are simply explaining.

6 MR. MacKIMMIE: I am trying to help this
7 Commission. I have had a man study this problem
8 since last September and I would think whatever
9 suggestion he makes would be of assistance to this
10 Commission.

11 THE CHAIRMAN: Go on.

12 MR. MacKIMMIE, Q: I was asking if you
13 thought something should be done

14 A. I do not think there is any question about
15 it at all, Mr. MacKimmie, and our studies point the
16 way to possible developments in this field. It seems
17 to me very clear that rationalization of the railway
18 system is an essential step for the Canadian economy.
19 I think that is the answer if the total
20 transportation burden is to be minimized for shippers
21 and taxpayers and for all citizens. This is not
22 a new idea because it was suggested in the Duff
23 Commission studies back a generation ago. At that
24 time the suggestion was that the railways get together
25 and on a voluntary basis coordinate their various
26 operations to produce these savings that have long
27 been hoped for. I do not think voluntary
28 cooperation would work then and it is my very sober
29 opinion is that it will not work now. I believe
30 it would be unwise and unrealistic to recommend a
solution of rationalizing the railway system but
leaving it to a matter of voluntary coordination. I



1
2
3 think that is unfair to the railways and unrealistic
4 to the citizens and taxpayers of Canada to say that
5 would be the solution.

6 I see it as essential to approach it in
7 a little different way. I think there is clearly a
8 need for coordination but I think we have two different
9 kinds of problems involved. I mentioned at the
10 outset that there were three general categories of
11 problems that had arisen; one was the matter of excess
12 capacity and the other was a lack of overall
13 transportation policy in Canada. Taking the first,
14 that is the matter of the lack of transportation
15 policy, I think it would be extremely desirable and
16 it would help the railways, whether they are fully
17 aware of this or not, if we had in the Canadian
18 government system a transportation policy group. I
19 suggest there could be one at some central place
20 at the federal level which would have the job of
21 assessing and evaluating total transportation needs
22 for all of Canada. Such an agency would be
23 extremely valuable because it would be in a position
24 to add up the total requirements of Canada for
25 all forms of transportation, air, water, highway
26 and rail and recommend to Parliament the kinds of
27 expenditure programs that ought to be made assessed
28 to minimize waste in the total transportation program
29 of the federal government. Now, I realize there
30 are many practical problems at the provincial and
local levels and I am merely talking here about a
group at the federal level who would consider Canada's
needs



1
2
3 so federal expenditures would be coordinated and make
4 sense as part of a total economic program for Canada.

5 Q. You say that was one group, was there
6 another area you were thinking of when you mentioned
7 the second?

8 A. Yes sir. This first group is rather a
9 policy not a budgetary advisory and recommending
10 group but, as I mentioned, there is this matter of
11 excess capacity. I also mentioned I do not believe
12 this can be only on a coordination basis by people
13 sitting around a table and coming up with a solution
14 to it. This is too complex, there are too many vital
15 interests at stake. I believe what is called for
16 is a separate agency to be given the responsibility
17 for drafting and putting into effect a long range
18 plan for rationalizing the Canadian railways. You
19 may call this a railway rationalization agency although
20 that would not be a practical title but that is the
21 essence of it. Now, that agency could be given the
22 power to devise a long range plan for streamlining the
23 railway system. I include in that the elimination of
24 excess lines whether they are main lines or branch
25 lines; I include in that the valuation of possible
26 streamlining of the passenger service of the two
27 principal railways and the other railways as well.
28 Of course, we are talking principally about the two
29 different railways and I hope my remarks can be taken
30 that when I refer to the Canadian National or the
Canadian Pacific I am really talking about the total
picture but those two are the dominant force in
Canada's railway structure.



1
2 I think such an agency is the only method
3 whereby the potential savings can be realized, but at
4 the same time you have to recognize -- as I mentioned
5 earlier in response to your first question -- a great
6 segment of Canada's economy depends on these facilities,
7 as they do in the United States, and these people have
8 to have time to adjust their plans, and they should have
9 the right to be heard, so that if there are public
10 policy considerations that ought to be brought into the
11 inclusion of this rationalization program, these points
12 can be considered.

13 Now, I am merely suggesting here a very
14 simple conception of what the framework shall be; a
15 special agency to work out in cooperation with the
16 railways the economics of the rationalization plan.

17 Q. In rationalization are you
18 including abandonments? You have told the Commission
19 that you would not recommend any wholesale abandonments,
20 but do you include in there the discontinuance of some
21 services?

22 A. Yes, sir.

23 Q. Would they be long range
24 or for a short term; any specific period?

25 A. Well, on that basis
26 investments of industries are made, and with regard
27 to survival over fairly substantial periods. This has
28 to be thought of in possibly two chunks, and with
29 respect to abandonment of physical facilities, branch
30 lines or consolidation of two main lines, I would think



1
2 it would be in the order of magnitude of a twenty year
3 program, and everybody would know today that within a
4 certain number of years in the future the line on
5 which he now engages his business will not be here, and
6 he can make his plans accordingly in deciding whether
7 or not to invest in a new plan or invest in a new
8 facility of some kind. He can weigh that as part of
9 his economic decision.

10 On the other hand, with respect to
11 passenger services, it seems to me that a shorter
12 time period is reasonable as it does not take quite
13 as long for people to adjust to changes in passenger
14 services because they have more flexible choices
15 available to them, as in the case of activities that
16 depend on particular freight facilities.

17 Q: And one of the other
18 problems you refer to in your general text, Mr. Saunders,
19 is that of the small shipments; would that come under
20 the suggested body?

21 A. It would not be my
22 recommendation the small shipments problem be included
23 in this sort of an agency. I believe the problem is
24 substantial, but I am not persuaded that it is a
25 problem which belongs, at this time at least, in the
26 hands of a central government co-ordinating agency.
27 I say that because this is a field in which we may look
28 for rapid changes in technology and in concept of
29 handling, and it is a field in which competition can
30 be an extremely valuable catalyst in bringing about



1
2 progress, so that I feel this particular area should
3 certainly be left to the railways themselves to work out
4 in co-ordinating plans that may emerge.

5 Q.: Mr. Saunders, this
6 Commission early in its sittings has ruled they do not
7 want to hear any evidence as to the labour element of
8 cost in any of its studies, and leaving that entirely
9 out of this picture, do you see any contribution that
10 could be made or do you anticipate or would you anticipate
11 the inclusion of labour organizations in this program?

12 A: Yes, I do. I see an
13 important function for the labour organizations. I
14 think you have to see this in perspective. There is
15 a railway problem, and there are revenue needs, and they
16 have to be met. I believe that part of the problem
17 and part of the revenue need can be met by a cost
18 cutting program which is essentially within the hands
19 of management, but there is a considerable amount of
20 cost adjustment or service adjustment that is not entirely
21 under the control of management, and such programs would
22 call for the co-operation of the labour organizations.

23 I don't see it as a matter of calling
24 in labour unions and saying, "Well, how many of your
25 employees shall we lay off?" I don't see it that way
26 at all, but I do think that we have not had an
27 opportunity in railway transportation for a fresh,
28 clean look at the total labour and management
29 relationship. These things always come up in terms of
30 some specific issue on which the two parties lock horns



1
2 and some crisis has to be solved. I think there is
3 another way of getting at this; I believe it would
4 be extremely desirable and helpful to Canada if a
5 special board of some kind were established, possibly
6 a Royal Commission -- I do not know the refinements of
7 organizations here -- but a special group to sit down
8 with labour and management and the railway industry
9 and to inquire into the total scheme of rates, and let
10 us say wage rates, rules and working conditions.

11 COMMISSIONER MANN: What did you have in
12 mind? Was there something along the lines of that
13 committee that is now or is about to be established
14 in the United States regarding rates?

15 MR. SAUNDERS: Yes, that is exactly what
16 I had in mind. It is something that would have to be
17 entered into by both sides with the idea not of
18 negotiating a particular contract, but rather with
19 the idea of seeing if it possible to arrive at a
20 whole new system which will be fair to labour and as
21 well give management an opportunity to achieve some
22 economies that ought to be achieved. I believe there
23 is a great prospect for long run good for management
24 and labour under such a system, but it cannot be done
25 if it is brought in in a particular wage crisis or
26 wage negotiations and with a chip on the shoulder and
27 a strike vote being threatened or management saying,
28 "We will not yield an inch", and so on. You simply do
29 not get fair treatment on these basic long run issues
30 except in an atmosphere that is unrelated to the immediate



1
2 problems of the day.

3 MR. MacKIMMIE: Thank you, Mr. Saunders.
4 I did not want to discuss any labour costs, Mr.
5 Chairman. You may answer my friends now.

6
7 CROSS-EXAMINATION BY MR. SINCLAIR:

8 Q. Mr. Saunder, with regard to this last
9 labour matter that you seem to have spent some time on,
10 have you ever done any specific work in dealing with
11 Canadian labour organizations in the railway industry.

12 A. No sir.

13 Q. Have you made any specific study of
14 Canadian railway labour agreements?

15 A. Well, I have looked over the general
16 rule books of the Canadian Pacific.

17 Q. Contracts?

18 A. Yes, but I do not think I have made
19 any special study of it.

20 Q. I did not say the rule books,
21 I said labour contracts.

22 A. I have not done it on that, no sir.

23 Q. Have you studied the Canadian
24 Firemen-Diesels issue?

25 A. I am generally familiar with its
26 end results.

27 Q. Have you studied the development of
28 the issue and its full considerations?

29 A. I have read about it.

30 Q. Have you taken a look at the



1
2 transcript of proceedings?

3 A. No sir.

4 Q. Have you looked at the parties appearing
5 and what was necessary to bring that matter to a head?

6 A. No sir.

7 Q. Did you ever look at the proceedings
8 with respect to the brakemen's organization and the
9 adjustments of working conditions of another railroad
10 involving those organizations?

11 A. No sir. I do know in general that the
12 relationships of the problems are similar in Canada and
13 in the United States with respect to what we call the
14 running organization, I believe, in Canada. The method
15 of pay and the general concepts of operation is similar in
16 both countries.

17 Q. In your appraisal in volume 1 in the
18 first three chapters you have placed great reliance upon
19 the comparisons of statistical data developed in Canada
20 and that developed in the United States.

21 A. Yes.

22 Q. You agree, Mr. Saunders, that much
23 care has to be taken in making comparisons to make certain
24 that you are comparing like with like.

25 A. One should always be aware of that
26 problem, yes sir.

27 Q. My question, Mr. Saunders, was that
28 much care has to be taken in making comparisons to make
29 certain that you are comparing like with like.

30 A. Well, I qualified my answer possibly



1
2 without explaining it, because technically one should
3 understand what is in the data which one is comparing
4 and the circumstances underlying the data, and then
5 one makes one's comparison and then one stops and asks,
6 "Now, what does this mean?" and then you can make the
7 comparison and then you have to evaluate what conclusion
8 you come to.

9 Q. I suggest to you, Mr. Saunders, that
10 if the data that you are using for comparison is not
11 like with like that the statistical conclusions or the
12 conclusions that you may draw from the statistics can
13 be very misleading.

14 A. Well, I say you have to be very careful
15 with how you draw your conclusions. Now, I can see your
16 having data that are not exactly comparable and still
17 coming out with a general conclusion -- if the differences
18 in the numbers are very great and the differences in the
19 underlying definitions are very small -- your conclusions
20 may be sufficiently sound. But on the other hand there
21 are conditions under which you would not justify it in
22 drawing any conclusions; you have to be careful, and
23 that is all I can tell you.

24 Q. And you are exercising a very large
25 degree of judgment when you are first comparing these
26 statistics and then any conclusions that you draw from
27 them, correct?

28 A. Well, the words "very large" are
29 troublesome; sometimes you have a very large degree
30 of judgment and sometimes you do not.



1
2 Q. Some people have not got the
3 facilities to allow them to make a judgment analysis
4 and so therefore they must allow the figures to speak
5 for themselves, is that correct?

6 A. That can be, too, yes sir.

7 Q. Mr. Saunders, are you aware of a
8 rather deep feeling in Canada that many Americans make
9 the mistake of thinking that our countries are
10 comparable?

11 A. I am very conscious of a great many
12 areas, yes sir.

13 Q. Canadian economy, I suggest to you,
14 is quite different from the American economy; do you
15 agree?

16 A. That is a very general question, Mr.
17 Sinclair. Generally, yes, I agree.

18 Q. Now, a comparison of the economies of
19 nations, I suggest to you, is a most complicated economic
20 appraisal.

21 A. Is there a question?

22 Q. Do you agree?

23 MR. MacKIMMIE: What nations?

24 MR. SINCLAIR: Any nations.

25 MR. MacKIMMIE: Take the Congo and the
26 U.S.

27 THE WITNESS: It is a very abstract
28 question.

29 MR. SINCLAIR: Or Alberta and Quebec;
30 even within nations if you want to go to that.



1
2 MR. MacKIMMIE: Take Cape Breton and
3 Halifax County.

4 MR. FRAWLEY: There are lots of Canadians
5 in both places.

6 THE WITNESS: I think it is obvious
7 there are many areas which have quite different economic
8 foundations and the conditions and so forth, but there is
9 only one simple answer to that, certainly there are
10 many areas where they are different and you have to be
11 careful when you compare them to be sure you are coming
12 to sound conclusions.

13 MR. SINCLAIR: Q. Mr. Saunders, you agree
14 in making statistical comparisons, and particularly
15 in using specific statistical indicators, that it is
16 essential that you find that the basis of these
17 statistical measurements is the same, number one; do
18 you agree?

19 A. Yes, generally.

20 Q. And the second thing is that you
21 must make certain that there is a reasonable
22 comparability and reliability of the data?

23 A. That is right, and again always
24 in terms of how you are going to use the figures.

25 Q. Well, if you are going to make
26 statistical comparisons, unless you have those two
27 essentials which I have spoken to you about, you then
28 have to make weighting factors dependent upon judgment;
29 correct?

30 A. You are really asking, I am afraid,



1
2 something that strikes me as a very philosophical question
3 and I am having difficulty giving you simple answers,
4 because the questions have a very deep flavour.

5 Q. Let me see if I can help you with a
6 specific question.

7 A. Please do.

8 Q. In the United States highway
9 transportation is closely regulated; correct?

10 A. Generally, yes sir.

11 Q. And the Interstate transportation;
12 highway transportation in the United States has been
13 under control and regulations of the Interstate Commerce
14 Commission for a good number of years?

15 A. Yes.

16 Q. Is there any area in the United States,
17 Mr. Saunders, comparable in relative size and
18 importance in the economic fabric as Alberta is to
19 Canada that has no regulation no highway transport?

20 A. I do not believe so.

21 Q. Now, would you look at your table
22 2G to give you a specific in dealing with matters which
23 we have been discussing. This is on page 12 of volume
24 1, and here you have made a comparison of statistical
25 indicators that you have developed on freight
26 transportation relative to population in Canada and the
27 United States, and this is the basis of the revenue
28 ton miles per thousand population. Do you have that
29 before you?

30 A. Yes sir.

Q. And these are developed from public



1
2 data, as you have indicated, government statistical
3 data; correct?

4 A. Yes.

5 Q. From both countries.

6 A. That is correct.

7 Q. In the Interstate Commerce Commission
8 data, statement 568, February, 1956, and which was the
9 statement upon which the statistics were compared, I
10 noticed this:

11 "All Ton Miles by Motor Vehicle between
12 cities and between rural areas and urban
13 areas are included, whether private or
14 for-hire, common or contract. Rural to
15 rural moves, city deliveries and movements
16 to or from contiguous suburbs are omitted."

17 Now, I find in Motor Transportation Traffic,
18 a D.B.S. publication in 1958, in regard to statistics
19 in Canada, the following:

20 "All ton miles performed by motor vehicles
21 in Canada including private urban ton
22 miles."

23 You will agree, therefore, Mr. Saunders,
24 that the basis of the statistics as developed by
25 Canada and the United States have different measurements?

26 A. Yes, sir, somewhat different.

27 Q. Did you know that?

28 A. I know we looked at the definitions;
29 I do not recall knowing that particular fact at the
30 moment, but I will say that we used in every case a



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Saunders, (cr.ex.
(Sinclair)

21027

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

source and a definition that we found as closely as
we could that would match in both countries.

-

-



1
2 Q. As closely as you could: that is the
3 key, is it not?

4 A. Yes, sir. Unless you are going to
5 carry this on to another phase, I think it would be very
6 unfair to leave it there without saying what we said
7 about it.

8 Q. I would carry it on to show the effect
9 it has on some of the views.

10 A. Thank you.

11 Q. It was just that it was said that what
12 I put to you was philosophic, so, to pick up an example
13 -- and maybe so that we can have it just complete as to
14 what I have in mind I can give you this example: did
15 you know there was general dissatisfaction in D.B.S.
16 as to the reliability of their truck transport
17 statistics?

18 A. Yes, sir.

19 Q. And that it is generally agreed that
20 truck transportation statistics as developed in the
21 United States by the Interstate Commerce Commission,
22 because they have been at it longer and they have better
23 reporting services, are much more reliable than those
24 we have available in Canada today? Do you agree with
25 that?

26 A. In a degree I think I would agree
27 with it; not entirely. We have a lot of problems with
28 the data in the United States too.

29 Q. I said "much more reliable" than the
30 statistics in Canada.



1
2 A. And I am qualifying my agreement with
3 you by limiting the concept of "much more". We have
4 had more experience with it and lived with it a longer
5 period of time, but there are still problems in
6 estimating the ton miles in the United States too.

7 Q. Have you ever looked at the percentage
8 of replies to inquiries for basic statistical data in
9 the United States as compared to Canada?

10 A. No, sir.

11 Q. Did you know that in Canada D.B.S.
12 were so dissatisfied with the percentage of replies that
13 they called for help and they made numerous requests of
14 people to try and assist them in getting the people
15 in the trucking business to send in data?

16 A. I am not aware of that fact.
17 Actually, I think we ought to keep this in perspective.
18 These have to be estimates. They are estimates in
19 the United States but possibly to a lesser degree; but,
20 they are estimates, and they do not really just depend
21 on a questionnaire -- taking the numbers on a report
22 and adding them up. As a matter of fact it is possibly
23 wasteful to stand here and compare defects in your numbers
24 and defects in our numbers. We have a lot of defects
25 in I.C.C. statistics, motor carrier statistics
26 particularly. These are problems, and I appreciate it
27 is a problem, but I submit to you, despite that, our
28 general conclusions are essentially very simple on
29 this point.

30 Q. Well, let us take one of your other



1
2 examples. You make a key factor in your approach
3 population, and in developing population in your
4 statistics you make it clear that you are taking it,
5 for instance, in relation to the area; population per
6 square mile is one of the key statistics used in your
7 Part I; correct? And from that you have excluded
8 the territories in Canada to bring them into more
9 reasonable balance; correct?

10 A. That is right.

11 Q. Here you have exercised a judgment
12 and applied the population statistics too-- correct?

13 A. That is right.

14 Q. I am going to suggest to you that if
15 you were going to exercise that judgment in a more
16 meaningful way what you should have done is figure the
17 Canadian area on the basis of an area which is
18 reasonably habitable compared to the area of the United
19 States?

20 A. That would be a very useful comparison,
21 I agree.

22 Q. And that would much improve what
23 you have done?

24 A. There is no question about it. You
25 can look at the map on the wall there and see the
26 effect is to narrow the band to this roughly 300 or
27 400 miles shown across the lower one-third of Canada,
28 and that would be essentially where the population is.

29 Q. And this would change the numbers?

30 A. Yes, sir. It still would be true



1
2 that Canada is more lightly populated. I hope you
3 will not take every figure here and worry with it as
4 to whether I am casting some aspersion. I am merely
5 giving the general setting.

6 Q. I am quite sure any aspersion you
7 casted would not be deliberate -- it was that it just
8 fell into the language.

9 A. Thank you, I appreciate that comment.

10 Q. You have noted in your submission that
11 the economies of Canada and the United States are at
12 different levels of development; correct?

13 A. Yes, sir.

14 Q. Do you think as an economist that it
15 is possible to draw a conclusion that notwithstanding
16 these different stages of development of the two
17 economies that we may look into the future of Canadian
18 economic development and say that the development
19 pattern of the United States in its greater maturity
20 points the way where the Canadian economy will finish?

21 A. I certainly think it is possible to
22 look into the future and draw the conclusions I have
23 drawn.

24 Q. You do?

25 A. Yes, sir.

26 Q. And specifically one of those
27 conclusions was that we may look in Canada for the
28 development of the relative position of rail being
29 in decline; that is one of the specific conclusions you
30 draw?



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

A. Yes, sir.

Q. Mr. Saunders, in your studies of the Canadian economy did you -- and I suppose you did because this is the latest book -- study Cave and Hope "The Canadian Economy" which was published last year?

A. No, sir.

Q. You did not consider that the study that had been done specifically to project the Canadian economic growth was one that you should have looked at?

A. It would have been desirable, and I am sorry I did not know about the book and I did not have time to look at it. I am sorry I did not know about everything there was to know. I am sure there are a few decisions you have not read in the course of your deliberations this last year.

Q. That is for sure, but this is important. I will tell you why this is important: it was a specific study supported by a transportation organization in Canada, and the book is rather a large one.

A. I see.

Q. And it is published -- you are a graduate of Harvard, are you not?

A. Yes, sir.

Q. You get the material that comes from Harvard about new books?

A. Usually asking for money.

Q. Well, not when they are talking about new books. Are they not interested in making



1
2 sure their graduates keep up to date with the work in
3 the economic field?

4 A. I am just not aware of the book, but
5 I would be happy to know what is in it that is different
6 from what I have said, if you could tell me that.

7 Q. Well, I will do that a different way.

8 A. May I have the name again?

9 Q. The Canadian Economy, by Cave and
10 Hope. The basic difference in the economies of Canada
11 and the United States, and critical in the assessment
12 of the future development and their impact, I suggest
13 to you, is the orientation of the economies, the general
14 orientation of the economies of Canada and the United
15 States; would you agree?

16 A. I do not know what you mean by the
17 question.

18 Q. I suggest to you that the general
19 orientation of the economic development of Canada and
20 the United States is quite different; do you agree?

21 A. You are using the same words, and I
22 still do not understand the question.

23 Q. What is bothering you?

24 A. "General orientation".

25 Q. Well, general orientation is based on
26 the resources of the two countries and must necessarily
27 be.

28 A. If you are asking whether the
29 resources are quite different, yes, they are, and
30 "does this have an effect on the economies?" -- yes, sir,



1
2 it does.

3 Q. And I suggest to you that the
4 orientation of the Canadian economy in the foreseeable
5 future and its development in ten or fifteen years looks
6 towards the development of the extractive industries.

7 A. In Canada?

8 Q. Yes.

9 A. It certainly is a very important part
10 of the prospects of Canada's development; there is no
11 question about that.

12 Q. And that the horizons of the extractive
13 industries in Canada are bright?

14 A. Yes, sir.

15 Q. And the development of the extractive
16 industries in the Canadian economy are rail
17 transportation directed?

18 MR. MacKIMMIE: Oh, no.

19 MR. SINCLAIR: Would you agree? Do you
20 want to answer, Mr. MacKimmie?

21 MR. MacKIMMIE: Yes; pipe lines.

22 MR. SINCLAIR: Well, we will deal with
23 pipe lines -- I will be very glad to deal with pipe
24 lines, but I do not know whether to cross-examine Mr.
25 MacKimmie or not.

26 MR. MacKIMMIE: Well, you make the
27 statement that all extractives go by rail. You know
28 better than that.

29 MR. SINCLAIR: I do?

30 MR. MacKIMMIE: I think you do.



1
2 MR. SINCLAIR: Well, I think I would
3 rather have this witness answer than Mr. MacKimmie.

4 MR. MacKIMMIE: I am sorry, Mr. Chairman.

5 MR. SINCLAIR: Q. I am asking you for an
6 answer to the question as to whether the development
7 of the economic orientation of Canada to the extractive
8 industries is rail directed?

9 A. It depends on the particular extractive
10 industry, and it depends on location too, of course.

11 Q. Yes.

12 A. One can conceive, for example, of
13 developments in British Columbia which might have very
14 little rail movement even though they involve commodities
15 which we customarily think of as rail bound, such as
16 coal or ore.

17 Q. Specifically taking British Columbia,
18 just what exactly did you have in mind?

19 A. I am not touting any investment
20 brochure, or anything.

21 Q. No. However, I would like to know
22 what you have in mind from your study which is behind
23 your answer to my question.

24 A. Well, British Columbia is an obvious
25 place of tremendous natural resources and I am convinced
26 in my own mind one of the great development areas of
27 this continent, and I wish I had a few pieces of it,
28 because I am sure it is going to be one of the very
29 important areas for development in the next generation.
30 But its physical location being as it is, on the west



1
2 Coast, might result in the development and exploitation
3 of ore and coal, let us say, which would have relatively
4 little rail movement.

5 Q. From where in British Columbia --
6 what part?

7 A. Well, whatever part it happens to
8 be in. I am just saying it is close to the ocean in
9 British Columbia than it is from Alberta.

10 Q. Do you think that one of the large
11 development areas of British Columbia is the Kootenay
12 Region?

13 A. I do not know enough about it to
14 pick the spots.

15 Q. Do you know where the Kootenay Region
16 is? If you do not, I am not surprised.

17 A. I should know because I have seen it
18 on the map, but I do not think I am sure.

19 Q. That is southern British Columbia.

20 A. We have it on the Canadian Pacific
21 divisional map.

22 Q. I suggest to you there is development
23 in there and there is projected development arising
24 from the Columbia Power Development; correct?

25 A. Yes, sir.

26 Q. And I suggest to you that the
27 development that is going on at Kraft and Celgar in
28 British Columbia is rail directed?

29 A. That is fine and that is wonderful,
30 and I am glad for the railways it is happening.

Q. Did you take that into account before



1
2 you made your assessment?

3 A. I did not take that particular thing
4 into account, but I would like to tell you this, Mr.
5 Sinclair: every industry today is becoming increasingly
6 conscious of transportation cost, and among the industries
7 that are so conscious are those which handle bulk
8 traffic, and one of the things we have always thought
9 of as rail bound is coal, and I would not be surprised
10 one bit if fifty years from today the volume of coal
11 dug out of the ground was higher considerably than today,
12 and yet the rail ton miles could be less.

13 Q. Well, let us not go fifty years ahead.

14 A. Well, twenty-five years.

15 Q. Let us keep within my area -- ten or
16 fifteen years.

17 A. I will say fifteen years. I do not
18 know about the total, but I can see how there may be
19 many places in which coal -- coal may not even be dug
20 out of the ground; it can be converted into gas in the
21 ground and moved by pipeline, or converted into
22 electrical power at the source and the kilowatt hours
23 move over the line instead of gross ton miles.

24 Q. We have even done that in Canada.

25 A. Then I am not telling you anything
26 new.

27 Q. Let me ask you specifically instead
28 of generalizations. Do you know where Cheviot,
29 Saskatchewan is?

30 A. No, sir.



1
2 Q. Do you know the area that runs north
3 from Regina and the area between Regina and Saskatoon
4 in Saskatchewan?

5 A. I know it is there; I do not know
6 much about it.

7 Q. Have you studied its development
8 phase and the impact of the development phase in the
9 area upon Canadian economic and Canadian transportation
10 requirements in the future?

11 A. No, sir.

12 Q. Do you know anything of the potash
13 developments in Saskatchewan and their effect upon
14 rail transportation?

15 A. No, sir.

16 Q. Have you any idea where Rimby, Alberta,
17 is?

18 A. No, sir.

19 Q. Do you remember the line of Canadian
20 Pacific running between Calgary and Edmonton?

21 A. I am sorry; I was getting a map.

22 Q. Yes, the line of Canadian Pacific
23 that runs between Calgary and Edmonton?

24 A. I lost your question.

25 Q. I am trying to pin-point Rimby, Alberta:
26 the line of the Canadian Pacific that runs between
27 Calgary and Edmonton. Do you see this line that swings
28 out from north of Red Deer and swings back in just around
29 LeDuc?

30 A. Yes, sir.

Q. That is one line you have designated



1
2 as a light density line in your exhibit 156?

3 A. Yes, sir.

4 Q. Do you know anything about
5 developments in the Rimby area which is about the
6 center of that -- or, south of the center?

7 A. No, sir.

8 Q. I suggest to you at Rimby there has
9 been developed one of the largest sulphur extraction
10 plants in Canada and it will go into production in the
11 next few months?

12 A. That is fine, but I do not see how
13 that bears on what we were discussing.

14 Q. And the movement of the traffic
15 from that plant will be long distance by rail?

16 MR. MacKIMMIE: Mr. Chairman, I would
17 like it clearly understood that when my friend puts
18 questions to the effect that a certain plant is the
19 biggest sulphur producer ---

20 MR. SINCLAIR: I said one of the biggest.

21 MR. MacKIMMIE: Yes, one of the biggest;
22 that it is his statement and not the witness's. He
23 has got the habit of putting it to the witness and then
24 saying, "correct?", and whether that means that what
25 he says is correct is a different thing. When my friend
26 says the Rimby plant is going to be one of the biggest
27 sulphur plants in the country, it is Mr. Sinclair's
28 statement.

29 THE CHAIRMAN: You have made it clear.

30 MR. SINCLAIR: I do not know what he has



1
2 made clear, except Mr. MacKimmie should give evidence.

3 MR. MacKIMMIE: I was hoping Mr. Sinclair
4 would stop giving evidence.

5 MR. SINCLAIR: If this expert comes here
6 and wants to disagree with a statement, that is his
7 privilege.

8 THE CHAIRMAN: I am sure.

9 MR. SINCLAIR: Thank you, Mr. Chairman.

10 Q. I am going to suggest to you you have
11 not studied and you have not got the means for studying
12 resource development in Canada and its effect on rail
13 transportation in the future; would you agree?

14 A. I would agree to this extent that I
15 have not studied these plants and these particular
16 mines and so forth, and if I were to go back twenty
17 or twenty-five years in the history of the United
18 States and do the same thing I could say whether a new
19 mine opened up here and a new smelter there and new
20 operations of some other sort. Economies are in a
21 constant state of change and development. But despite
22 all the individual plants that you can cite and despite
23 the fact I would agree that the extractive industries
24 are a very important part of Canada's future, I think
25 I am still in the position to give you a general
26 assessment of the trends of Canada's economy.

27 Q. Notwithstanding the fact you have
28 not studied the impact and the potential industrial
29 development in Canada and determined as nearly as you
30 can how this traffic is going to move and where it is



1
2 going to move? You really think you can do that? I
3 want you to think about that. I want this answer to
4 be carefully thought through. You really think you
5 can say that as an economist?

6 THE CHAIRMAN: I think we will have the
7 recess now.

8
9
10
11
12 --- Short recess ---
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30



1
2
3 THE CHAIRMAN: Order, please.

4 MR. SINCLAIR, Q: May I put my question
5 to you again, Mr. Saunders? My question is: so
6 you say as an economist that you can, without an
7 intensive study of the extractive industries and
8 their markets, appraise the effect on economic
9 development in the foreseeable future upon rail
transportation?

10 A. My answer to you is, I can make the
11 kind of appraisal that I did make. I think your
12 questions have led down a by-way here which is not
13 the direction I was going in when I made my study. I was
14 not making a forecast of the ton miles of rail
traffic. What I said on page 23 of Volume 1 is:

15 "In the future, it may be an even
16 more difficult struggle for the
17 railroads to maintain their share
18 of the total gross national product."

19 I was not talking about ton miles. I
20 went on to say:

21 "As the economy grows more complex,
22 its output will be less and less
23 suited to rail transport."

24 Now, I submit to you that nobody can
disagree with those statements.

25 Q. Is it on the basis of those statements
26 you make your conclusion that the railway is a
27 declining industry?

28 A. Let us see where you get that. Where
29 did I refer to that?
30



1
2
3 Q. That is one of the findings or conclusions
4 that I asked a question about before, whether it was
5 your conclusion that the railways in Canada was a
6 declining industry and your answer was yes.

7 A. I will have to let the record speak for
8 itself on that. I am afraid if we are going to have
9 that kind of cross-examination I am going to have to be
a little more careful in my answers.

10 Q. I wish you would be, that is why I am
11 asking the questions.

12 A. I am trying to be helpful to the Commission
13 and make progress with the essential theme of the
14 story of what we are trying to accomplish but if your
15 questions have a loaded flavour --

16 Q. We do not cross-examine that way in this
17 country.

18 A. I appreciate that but I do not think I
19 said --

20 Q. This is not the United States.

21 A. It is not a court room either.

22 Q. Oh, but we are trying to test the basis,
23 that is all we are trying to do for the benefit of the
24 Commission.

25 A. I am not in any disagreement with you,
26 I want to clarify something here; I was not at any
27 point saying simply and categorically the railways are
28 declining.

29 COMMISSIONER BALCH: They have declined,
30 I would say.

THE WITNESS: I said they have and I was talking



1
2
3 of the share of the market but in this discussion
4 somewhere it has got from a relative to a physical --

5 MR. SINCLAIR, Q: Commissioner Balch says
6 they have declined; they have declined on what period?
7 You think the base is important, do you not, that is
8 the key?

9 A. What I have been talking about is the
10 share of the market which the railroads can look for.
11 What they have had has been declining.

12 Q. But the industry as a whole, the rail
13 transportation as a whole in Canada, you will agree with
14 me will you not, based on your study, looks forward
15 to development, increases in capacity, size --

16 A. You put a lot into that question. I
17 expect the railway industry in Canada to develop,
18 I hope it will but I do not expect it to have an
19 increase in overall plant.

20 Q. You do not expect it to have an increase
21 in overall plant?

22 A. No, I think it would be a further tragedy
23 if the total miles of rail twenty years from today in
24 Canada were greater than they are today. Before you
25 start the next question let me add this: I appreciate
26 there are going to be new developments and new areas
27 and obviously there will be new pieces of railroads
28 added, perhaps hundreds of miles in particular places.
29 However, I am also saying there will be other places
30 where you take them up and if this rationalization plan
as referred to was carried out I would be absolutely
convinced that the total railway plant in Canada twenty



1
2
3 years from today should be less.

4 Q. Well, let me suggest to you that --

5 A. I am talking about miles.

6 Q. Yes, miles of track. Let me suggest to
7 you before you can make that assessment it is
8 essential that you make an intensive study of the
9 development of the resources and extractive industries
10 of Canada, the markets of these industries and the
11 traffic that will result.

12 A. No sir, I do not think so and I would like
13 to tell you why. I cannot conceive of development being
14 so diffuse throughout Canada, I cannot visualize where
15 they can be in sufficient volume so you would add
16 enough miles -- I am talking about five or ten thousand
17 miles --

18 Q. You doubled the figure you put for twenty
19 years a few minutes ago when you said 5,000.

20 A. We took that one too. I gave you a
21 figure in my original report and I think it is a
22 reasonable and conservative figure. I do not not say
23 that is the maximum you can conceive but I cannot
24 conceive of even 5,000 miles of new railroad being added
25 in Canada because of extractive industries. I think
26 what you have overlooked and what I would pin this
27 entire thing on -- that is a rash statement, perhaps
28 I should not say it -- certainly an important factor
29 in the development of extractive industries is that you
30 do not build whole new railroads in most cases but
you run a track up to an existing line. I know the
Quebec North Shore and other railroads have been built



1
2
3 but, generally speaking, in a process of development
4 you merely mean the addition of segments of line
5 to the existing property.

6 Q. Let us look at what type of segments
7 there would be. Let us look at Quebec: here is a
8 map before you here and do you see Ungava Bay up in the
9 top part of Quebec?

10 A. Yes, sir.

11 Q. Do you see Lake St. John?

12 A. Yes, sir.

13 Q. How many miles do you think it is from
14 Lake St. John to Ungava?

15 A. I don't know.

16 Q. You must have an idea?

17 A. I will accept your estimate.

18 Q. I am not going to make estimates, I am
19 asking you to make them. Do you know where Knob Lake
20 is in Quebec?

21 A. I do not believe so.

22 Q. Well, that is the terminus at the present
23 time of the Quebec- North Shore and Labrador. How
24 many miles do you think that is at the present time?

25 A. I do not recall.

26 Q. Have you any idea?

27 A. I have seen the figure.

28 Q. Is it 1,000 miles?

29 A. I don't recall what it is.

30 Q. Well, from Knob Lake to Ungava Bay, how
many miles would you think that would be ?

A. I just don't know.



1
2
3 Q. What do you think of the development above
4 the lakes in Manitoba, do you think there will be
5 railways required there?

6 A. It depends on the developments in that
7 area.

8 Q. Have you read the Little report?

9 A. No, sir.

10 Q. What do you think of the developments
11 in the northern part of British Columbia and Alberta as
12 to the requirements for railways?

13 A. I don't know.

14 Q. Have you read anything about the
15 development of Pine Point?

16 A. I don't recall.

17 Q. Do you know where Pine Point is?

18 A. No, sir.

19 Q. Now, the statistics you have used and
20 the way you have interpreted them, Mr. Saunders, have
21 lead you to believe there is a marked difference in the
22 utilization of line transportation facilities in
23 Canada as compared with the United States; correct?

24 A. Yes, sir.

25 Q. Your conclusion was that highway density
26 in Canada is somewhat greater than the United States but
27 that in rail transportation the opposite pertains;
28 correct?

29 A. Yes, I said in Canada the highway density
30 is somewhat greater than the United States.

Q. Yes and that was based on the fact that
you developed your basic statistics on intercity ton



1
2
3 miles, as you define them, but you really used the
4 data that you got from the DBS which included more
5 than intercity ton miles.

6 A. Yes, sir.

7 Q. And you restricted your mileage in Canada
8 to paved highways alone; you make that point?

9 A. I think I also gave you some figures when
10 we were here the last time with the effect of including
11 all highway miles.

12 Q. Did you? I looked for that but I have
13 prepared a little document that does include them for
14 both the United States and Canada. I will show that
15 to you and ask the reporter to take it into the
16 record. The sources are shown and they are sources,
17 I think, that you used, your comparable sources.

18 Miles of Railroads & Highways per
19 1,000 population

20 Canada vs. United States

21 Canada United States
22 1 2 1 2

	<u>Railroad</u>	<u>Highway</u>	<u>Total</u>	<u>Railroad</u>	<u>Highway</u>	<u>Total</u>
23 1940	3.7	10.2	13.9	1.8	n.a.	n.a.
24 1945	3.5	10.9	14.4	1.7	11.3	13.0
25 1950	3.1	12.4	15.5	1.5	11.1	12.6
26 1955	2.8	12.7	15.5	1.3	11.8	13.1
27 1958	2.6	14.8	17.4	1.3	12.0	13.3

28 1 - Rail mileage = miles of road owned.

29 2 - Highway mileage includes, paved, gravel and crushed
30 stone, but excludes earth and unimproved roads.



Source: Same as Table II - 4:

CANADA - Rail: Canada Year Book 1959,
pages 775 & 1250.

Highway: Road & Street Mileage and
Expenditure 1958, #53-201,
D.B.S. (April 1960)

U.S. - Rail: Transportation Statistics,
Bureau of Transport Economics
and Statistics, Interstate
Commerce Commission.

Highway: Highway Statistics, Summary
to 1955, p. 77. Also 1956
ed., 1957 ed., p. 163,
1958 ed. p. 107.

Q. You might compare this document that I
am asking to be taken into the record and this is
headed "Miles of Railroad and Highways per 1,000
population". I would describe this as a revision,
perhaps a new edition of Table II - 4 in Saunders
Volume I, page 10. Now, looking at the revised
edition of Table II - 4 ---

A. If I could just check for a minute
before you get into it too far. I think I did read
in the figures for 1958 and I want to check those out
here. They same to be the same figures, I think.

Q. Would you accept the figures subject to
check?

A. I am about to say as of 1958 the figures
seem to be the same as what I have or, at least, we



1
2
3 are in the same ball park.

4 Q. Now, the only thing I have done with
5 this revised table II-4 is to include surfaced highways
6 although not paved for both Canada and the United
7 States.

8 A. Well, I don't know.

9 Q. That is what the document says.

10 A. I am a little gun shy now.

11 Q. I ask you to accept them subject to check.

12 A. I see in 1958 the figures are the same
13 as what I have. I will go that far with you.

14 Q. Well, in view of the way that the
15 statistics are developed for highway transportation in
16 Canada you will agree that this type of highway mileage
17 more reflects the plant that produces the ton miles
18 as developed by DBS than paved roads alone?

19 A. Not really. This is exactly the
20 same problem that we went through in population per
21 square mile. You asked me whether it would make
22 sense to take another step of refinement beyond the
23 one I took on population. I could have taken the
24 whole country and divided it into population, but
25 that to me is meaningless so I scaled it down. I
26 took a middle position. You say I ought to go further
27 than that because most of the people are in the other
28 band. Now, I actually did the same thing on this
29 highway railway density in as much as I did not take
30 all the miles, I took the part that more nearly reflects
the place where the principal traffic is handled. Now
you are saying I ought to go back and use all the miles



1
2
3 including all those rural roads. Now, I agree that
4 can be done and I did it for illustration just as I
5 could have taken the population for the grand total of
6 square miles but it is not the best economic yard stick.

7 Q. It is not the best in your opinion?

8 A. That is right.

9 Q. What proportion of the highways of the
10 Province of Quebec over which highway transport is
11 licensed would you think you had got by restricting
12 your mileage count to paved highways? Did you read
13 the submission of the Province of Quebec that was
presented here last week?

14 A. No sir, I have not seen that yet.

15 Q. Have you considered --

16 A. Just to leave that so it is not incomplete;
17 the miles over which they have licensed equipment does
18 not bear on the question of the miles over which ton
19 miles are generated. You will agree there could
be a great difference in those two figures.

20 Q. Let me ask you this: what proportion
21 in the Province of Saskatchewan would you think ton
22 miles highway moving over paved highways and other
23 hard surfaces, that is gravel, crushed stone or similar?
Have you any idea?

24 A. I don't know.

25 Q. Would you think there would be a meaningful
26 proportion of Saskatchewan highway transportation
27 moving over what we call improved but not paved roads?

28 A. I do not know.

29 Q. Well, Mr. Saunders, I have also prepared
30



another document that just carries forward the one we have just been looking at. I will call this Table II-5, Saunders revised. I will show you that and ask that it be taken into the record.

Table II - 5 (revised)

National Productivity Status in 1958.

Canada vs. United States

	<u>Canada</u>	<u>United States</u>	<u>Ratio U.S. to Canada</u>
1. G.N.P. (Billions of current \$)	32.6	441.9	13.6
2. Miles of Railroad (Single track)	44,125	218,399	4.9
3. Miles of highways	251,992	2,083,000	8.3
4. Total Miles of roadway (2 ÷ 3)	296,117	2,301,399	7.8
5. Population (000)	17,048	173,232	10.2
6. G.N.P. per mile of roadway (1 ÷ 4) (\$000)	110	192	1.7
7. G.N.P. per capita (1 ÷ 5) (\$000)	1,913	2,551	1.3

MR. MacKIMMIE: Mr. Chairman, I wish my learned friend would say "Sinclair Revised". I do not know where this was prepared or where the figures come from but I assume he will have a witness to prove it.

MR. SINCLAIR: If you will wait I will tell you where I got the figures.

MR. MacKIMMIE: I am just saying that it is not Saunders, it should be Sinclair.

THE CHAIRMAN: Mr. Saunders is not the author.

MR. SINCLAIR: No, the author is the figures



1
2
3 Mr. Saunders used just put in a little different way.
4 Now, in the document before you which is now part
5 of the transcript, Mr. Saunders, what has been done
6 here is to take Table II-5 but instead of using your
7 restrictive mileage of highways I have used mileage
8 developed in the document by using improved roads,
9 highways paved and improved, gravel and hard surface.

10 MR. MacKIMMIE: I wonder if I could see
11 one of those.

12 MR. SINCLAIR: I am sorry, I thought you had
13 one.

14 Q. Now, looking at this document, Table II-5,
15 revised, would you tell me whether you have any
16 comments. I ask you specifically do you not think
17 that it improves the appreciation of the statistics
18 that you have listed in your document.

19 A. I do not think it is a matter of
20 improvement, it is a matter of trying to understand
21 where we are going and what we are covering. I have
22 no objection to making this kind of comparison if you
23 want to make it assuming the figures are all right.

24 Q. Subject to check?

25 A. Yes, I have no objection to this kind of
26 comparison as it stands. This is merely a question
27 of whether the conclusion I have come to should be
28 altered as a result of it. I felt it was more
29 meaningful from an economic point of view to leave it
30 out. There is no secret about this, I said I put the
figures in on miles the other way when I was here
and I am perfect willing to let it speak for itself



1
2
3 assuming the figures are right. However, I just do
4 not know what you are about, what conclusion you are
5 drawing.

6 Q. Let me see if you will agree with this
7 conclusion: you made a point that in Canada there
8 were more facilities rail per G.N.P. per population
9 than there were in the United States but that the
reverse was true with respect to highway facilities?

10 A. Yes, sir.

11 Q. Now, I suggest to you that looking at
12 Tables II-5 and II-4 revised that it indicates that in
13 Canada not only are there more facilities rail but
there are more facilities highway.

14 A. Taking it that way that is what it shows
15 but my point is that does not represent a complete
16 or really meaningful economic measure because the
17 unimproved highway is being equated with an improved
18 highway and I do not think it makes as much sense to
19 take over the development of two areas in which one
20 is three-quarters or more unimproved highways and the
21 other is a very much larger proportion of improved
highways.

22 Q. Well, why did you try to compare rail
23 mileage Canada and the United States? I am sure
24 you will agree with this that the proportion
25 of branch line mileage in Canada to a heavy density
26 line in the United States is much greater, the
relationships are entirely different.

27 A. I said that, that is part of my point.

28 Q. All I am pointing out to you is just
29
30



1
2
3 because you have different types within the composite
4 does not necessarily destroy the basis of the statistic
5 because you have done that with respect to rail by
6 taking the rail miles.

7 A. But there is no question about the fact
8 that Canada's railway capacity is much greater relatively
9 than that of the United States, that the density is
10 much greater in the United States than in Canada.
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30



1
2
3 Q. And this also applies to the highways,
4 is what I am asking you to agree with?

5 A. If you take all the miles, I will agree.
6 If you limit it to what the others may think of as
7 the principal highways from the economic point, I
8 don't know that there would be that difference.

9 Q. The conclusion I asked you to remember
10 is this, that the fact that there is more rail
11 capacity and more highway capacity in Canada than
12 in the United States is a reflection of the economic
13 demands for transportation in the country and is one
14 of the basic differences between the economies of
15 the two countries, do you agree with that?

16 A. I certainly agree with you that there is
17 this dispersion problem which is at the root of it.
18 The dispersion of population, the dispersion of
19 industry, that is one of the things that contributes
20 to this light density of use of any of the
21 transportation facilities; there is no question about
22 that.

23 Q. Let us add a few more. In the Canadian
24 economy, cereal grain, which is within the industry
25 complex is export oriented in Canada?

26 A. Yes.

27 Q. And this requires long movements to
28 export positions, correct?

29 A. Yes.

30 Q. The metals industry in Canada is
export oriented; the location of the metal industries,
mines, smelters, and it requires long hauls to markets,



1
2
3 correct, much longer than in the United States, correct?

4 A. I don't recall what the average hauls are.
5 I guess we have them. Shall I look and see?

6 Q. All you will do is you will pick up coal
7 in the statistics, and I am talking about metals.

8 A. I know; I heard you. Can I see that
9 waybill?

10 Q. Metals. Let us take, for instance --

11 A. I thought you meant ores, like iron ore.
12 Didn't you say ores?

13 Q. Metal.

14 MR. MacKIMMIE: What metals are you talking
15 about?

16 MR. SINCLAIR Q: Lead and zinc. Mr.
17 Frawley calls to your attention Tadanac to Montreal.

18 MR. FRAWLEY: I am interested in it because
19 of the kind of rate you give your own subsidiaries.

20 MR. SINCLAIR: I heard that, Mr. Frawley,
21 and if he has any complaint to make on the rate all
22 he has to do is to walk downstairs and sign his name.

23 MR. FRAWLEY: Just send a postcard.

24 MR. SINCLAIR: Not even a postcard.

25 THE WITNESS: In 1958 the average haul for
26 concentrates was 131 miles.

27 MR. SINCLAIR Q: I am talking of metals;
28 dry metals.

29 A. Tell me another one; I don't know what you
30 mean.

Q. Lead, zinc, metal.

A. You mean in refined form?



1
2
3 Q. Yes?

4 A. Well, let us take lead and zinc bars,
5 ingots and pigs, it is 1614 miles; for
6 lead and zinc it is 645 miles.

7 Q. What do you think the haul is in the
8 United States?

9 A. It would be considerably shorter, I would
10 think. I am sorry, but I still don't know where you
11 are going with that, though, because we are still saying
12 that the ton miles per mile of line are less in Canada.

13 Q. What I am saying to you, Mr. Saunders,
14 and I am really trying to assess what you have done
15 and point out that it doesn't come to the conclusions
16 that it might appear to come in this regard, that in
17 Canada, because of the orientation of its economy,
18 because of this resource basis and because of its
19 economic development, it is necessary to have
20 substantially greater transportation facilities than
21 you would find in the United States, and necessarily
22 of lighter density.

23 A. Per what?

24 Q. Per G.N.T; per population; per ton mile.

25 A. I think the critical point here is ---

26 Q. Would you agree?

27 A. I am saying that you have too much.

28 Q. I am asking you; we will discuss later
29 how much of it and whether there is a basis for your
30 saying it later, but now I am asking you on the basis
of the comparisons which you have made with the United
States that you don't prove anything by making this



1
2
3 comparison because all you are showing is that
4 transportation facilities are greater in Canada than
5 in the United States based on your selected indicators,
6 and I am suggesting that is a result of the economy
7 and the resource basis and the export markets, and
8 I am asking you to agree. Upon that study you have
9 made can you answer that question, please?

10 A. I am trying to answer it and to see --
11 I have to see what I said about it in Chapter 2 here,
12 which is really where we are.

13 Q. What you did was put down some statistics,
14 and then drew the conclusion and then moved on from
15 that conclusion, and I am pointing out to you that
16 you have to place these statistics in the environment
17 that produced them, and then the conclusion can be
18 drawn if you properly weigh the environment. Can
19 you answer the question, please?

20 A. Yes sir. I think that maybe I better
21 have the question read back.

22 (The reporter reads the previous question).

23 THE WITNESS: Agree with what, now?

24 MR. SINCLAIR, Q: You have heard it read
25 to you again?

26 A. It is a bit out of focus, and that is
27 my problem.

28 Q. Didn't you understand my question? Is
29 that the problem? I will be glad to clarify it.

30 A. My problem is that in this chapter I
have merely described these physical facts. Now,
later on I have come to a conclusion about what I think



1
2
3 should be done, and you are interjecting something
4 that sounds as though it disagrees with the conclusion
5 I have come to in Chapter 2, and I have read Chapter
6 2 and I don't see how this bears on what I have said.

7 Q. Let me point this out to you; the
8 economies of Canada and the United States are not
9 comparable?

10 A. How can you say a thing like that?
11 Of course you can compare them.

12 Q. Are not comparable in relationship
13 to their demands for transportation; do you agree?

14 A. I don't think it is possible to make
15 that kind of a statement. I compared them and I
16 showed that one has less intense utilization than the
17 other. That is what I have said. Is anybody
18 disagreeing with that?

19 Q. Let us take the next one, that the
20 requirement for transportation facilities in Canada
21 is a result of the resource basis, the market and
22 the economic orientation of Canada.

23 A. Certainly, which is the result of the
24 whole congeries and the things that make the country.

25 Q. And because of this Canada needs more
26 transportation based on your indicators than does
27 the United States?

28 A. Are you saying that Canada needs more --

29 Q. Transportation facilities?

30 A. Transportation facilities per ton mile
of traffic?

Q. Of course?



1
2
3 A. But you say per ton mile of traffic,
4 and I don't know that this has any place in it; that
5 is my trouble.

6 Q. Never mind what you think about it
7 having any place, do you agree from your study of
8 the matter that because of the various points I have
9 just discussed with you that Canada does need more
10 facilities, transportation facilities, than the
11 indicators that you have taken?

12 A. Per what?

13 Q. The revenue ton mile, population, G.N.P.,
14 than does the United States. Those are the various
15 ones which you have used.

16 A. I am not sure that it follows that
17 you need more miles of track per ton mile of traffic;
18 that is the issue.

19 Q. Why are you not sure, because you have
20 not studied it?

21 A. No, because the fact that you have a
22 long haul for a commodity to its market doesn't mean
23 you have to have two miles of track side by side in
24 order to haul that ton mile; you can have a ton mile
25 on one track. One on the track, and you have two
26 tracks and two ton miles, so you take the two ton
27 miles and put them on the one track.

28 Q. One and one makes two; this I can also
29 agree with.

30 A. I am not being feticious.

Q. It sounds like it.

A. I didn't intend it that way. I am saying



1
2
3 that I know the ton miles and I see what they are,
4 and I agree that the ton miles of Canada are the
5 result of the locations of its industries and its
6 markets, and I took these ton miles and I related
7 them to the miles of facilities provided to move them,
8 and I came out with a very little bit of traffic on
each mile of track.

9 Q. Mr. Saunders, what you did was compare
10 with the United States?

11 A. Yes sir.

12 Q. This is your basis, and you say in
13 comparing Canada and the United States that you find
14 lower densities and greater facilities for rail
15 transportation, and I suggest to you there are
16 greater facilities for highway transportation in Canada
17 than in the United States. My point to you is that
18 the U.S. comparison doesn't indicate any excess
19 capacity in Canada over its requirements because
20 the United States basis from which you drew your
conclusion is not a meaningful basis because of
changes in the economy.

21 A. I can't agree with that, I am sorry.

22 Q. Will you tell me how you would export,
23 other than light traffic density, on the dispersed
24 gathering system that the railways maintain for the
25 hauling of the western Canadian grain crop? How
26 you export other than light densities?

27 A. I wouldn't export other than light
28 densities on this branch line, whether they are grain
29 or any other commodities, or in any other territory,
30



1
2
3 but you are asking me to compare Canada and the
4 United States.

5 Q. I am not asking you, you did it.

6 A. But you are asking me to explain my
7 comparison, and what I want to say to you is that
8 in the United States I didn't just take two main
9 railroads, I took 123 class 1 railroads, and they
10 run side by side and are parallel and they are
11 duplicative, and there are many, many other things
12 about them, but still they have a higher traffic
13 density despite all that, so the mere fact that you
14 have a problem of light density in Canada doesn't
15 mean that I can't compare it with the United States.
16 I am still saying that you are getting less use out
17 of it.

18 Q. Possibly we can clean it up this way;
19 you have just referred to it as a problem of light
20 density, and I am going to suggest to you that what
21 it really is is the necessity of light density to
22 meet the economic requirements of Canada.

23 A. I think we have narrowed it down.

24 Q. That is one question.

25 A. We can clarify what we are talking
26 about. I am saying that certainly it is a fact that
27 Canada has light density lines, and I consider it
28 a very serious element in Canada's railway cost
29 picture. Now, I go on to say that I believe one of
30 the things that explains the light density condition
is that it has too many miles of track. I will agree
with you that in addition to that you have a point in



1
2
3 saying that the dispersion of industry requires light
4 density; I agree with that, and that is why we have
5 them, but in a general sense I am saying that
6 fundamentally we have them because we have two lines
7 of track where one would do the job.

8 Q. Well now, this is the question; you
9 then say that the light densities of Canadian
10 transportation facilities are not a requirement of the
11 Canadian economy, is that right?

12 A. Taking the transportation system as a
13 whole, that is right.

14 Q. Let us take the ---

15 A. I agree with you in a particular branch
16 line, and if you are going from point A to point B and
17 it is one hundred miles long and there is only one
18 railroad that goes between those two points, that
19 the traffic that moves over that line is bound to
20 produce a light density, and that is what we have
21 talked about as the light density problem, and I
22 agree with that.

23 Q. You see, Mr. Saunders, I just want to
24 make it clear to you the position of the company
25 which I represent. I am speaking for the Canadian
26 Pacific and I am suggesting to you that the Canadian
27 Pacific has light density lines because they are
28 necessary for the development of the economy in its
29 present state and in its foreseeable future, and there
30 is not on Canadian Pacific a problem, to use your
words.

A. Yes, and what I am saying to you, sir, is



1
2
3 that my recommendation to this Commission disagrees
4 in fundamentals on that point of view because I say
5 I think there ought to be an agency that would sit
6 down with you and the gentleman on the other side and
7 the public and try to work out a way of eliminating
8 those very things which you say are part of the way
9 of life.

10 Q. Why should you eliminate, Mr. Saunders,
11 something that is necessary for the economic well-
12 being of Canada?

13 A. Well, sir, if the particular facilities
14 are necessary for the economic well-being of Canada,
15 then by all means I think they ought to be preserved,
16 and if there is an economic problem, that comes
17 about as a result of that.
18
19 -
20
21
22 -
23
24
25
26 -
27
28
29
30 -



1
2 If the railways have a revenue need problem because
3 they are maintaining a facility that is required in the
4 public interest and as part of the national purpose of
5 Canada, then that is a budgetary and financial problem
6 for parliament to tackle.

7 Q. For instance, the movement of grain
8 to export positions?

9 A. Well, I do not know about the "for
10 instance" -- whatever the lines may be that are
11 assessed.

12 Q. Well, Mr. Saunders, let us take a few
13 minutes on the statistics. Do you think that you can
14 from statistics and United States comparisons determine
15 what amount of transportation facilities are required
16 for the national well-being of Canada?

17 A. No sir, not entirely. That is only
18 chapter II. I have got three more chapters to go before
19 I come to the conclusion. I have got twelve chapters.

20 Q. Yes, we have lots of chapters.

21 A. We are only on chapter II and I have
22 told you a certain basic number of tonnages. I do not
23 make a conclusion until volume II.

24 Q. Let us look at chapter II, volume
25 1 where you talk about the share of the market; which
26 you think is important.

27 A. Yes, sir.

28 Q. And it is. The first point I would
29 like to discuss with you is your reliance here on
30 G.N.P. You put the G.N.P. into constant dollars with



1
2 what deflator, Mr. Saunders? The same deflator for
3 Canada and the United States?

4 Would you check that and I will go on?

5 A. Yes.

6 Q. Have you taken the opportunity of
7 analysing the service industry component of G.N.P. that
8 is non-transportation producing Canada versus the United
9 States?

10 A. I have looked at the figures. I do
11 not have that document with me, however.

12 Q. The growth of the service industry
13 component of G.N.P. which is non-transportation
14 producing has been substantial in recent years in
15 both countries, has it not?

16 A. Yes sir.

17 Q. Do you think that the growth of the
18 service factor component of G.N.P. in Canada that is non-
19 transportation producing has been greater in your
20 period of comparison relative to the United States,
21 or the other way?

22 A. I am a little rusty on this now. I
23 knew at the time we made up the exhibits.

24 Q. All of these things do have an
25 effect upon the comparison using G.N.P.?

26 A. Yes, they have an effect on how you
27 interpret the end result.

28 Q. G.N.P. is rather a crude tool to
29 equate with transportation; would you agree?

30 A. Yes, sir. It is the best overall



1
2 number we have, however.

3 Q. It is the best overall number of the
4 value of the total production of the nation, goods and
5 services?

6 A. Yes, but we used it as the best overall
7 way of describing the total activity of the economy in
8 order to say how transportation has moved relative to
9 the rest of the country.

10 Q. But if the dollars in the G.N.P. are
11 very different in their revenue transportation producing
12 capacity this can materially affect the comparison you
13 are making between years or between nations; correct?

14 A. Well, that is, I am afraid, not a
15 question that I can answer quite that way. That is
16 a very, if I may say so -- and I do not mean this
17 critically -- but it is a very complicated question. If
18 you tried to restate that --

19 Q. I suggest to you that before you can
20 draw conclusions as to transportation trends in relation
21 to G.N.P. and have them meaningful you should introduce
22 a weighting factor for the service industries component
23 of the G.N.P.?

24 A. No, no; I cannot go along with that.
25 I was afraid that is what the connotation of the
26 question was. You have to ask what your comparison is
27 for -- what you are trying to find out. If I wanted
28 to find out what share of the production of the physical
29 product of the country was moving by rail I would not
30 use this method; I would not get tangled up with



1
2 equating services or anything else, because then you
3 have to equate light industry and heavy industry and
4 wholesale and retail and finance and everything else.
5 It would be a thing I would not undertake. If I wanted
6 to find out the share of the market in physical terms
7 and in detail, what I would do -- and I recommend this
8 to you -- would be to take my rail commodity, coal,
9 and I would say, "what tonnage of coal was produced?"
10 and "what tonnage did I move?". Then, I have "X"
11 percentage of the coal. Then, I would take iron ore
12 in the same way, and lead ore and concentrates, and
13 lead metals, and so forth.

14 Q. And the Crowsnest grain, and you
15 would put 100% on that. That would be an easy one.

16 COMMISSIONER GOBEIL: May I question
17 there: Mr. Saunders, do you mean by your answer to
18 Mr. Sinclair that if in Canada the service industry
19 not productive of transportation is 5%, and if in the
20 United States it is 25%, you can still use the G.N.P.
21 for comparison?

22 THE WITNESS: Well, yes sir, but you
23 see it depends on how I used it. I did not use it
24 quite that way. I was not using it in a way that
25 would be hurt by that fact. I recognize it is a fact,
26 and if I did not say so in my submission I will be
27 surprised.

28 MR. SINCLAIR: Q. I cannot find it.

29 A. I did say obviously there are a
30 great many things which affect this, but you have to



1
2 ask what conclusion do I come to, and I think that is
3 only -- you cannot just ask the abstract question,
4 "is it possible to do this?". I recognize Mr. Sinclair's
5 point, but I am saying I do not think it has any effect
6 on what I did with the figures.

7 Q. With respect, I say that you are wrong
8 because what you have done is used G.N.P. to show the
9 railroad share of the market, and your conclusion was
10 a traffic trend conclusion based on a share of the
11 market measured by G.N.P. and one other factor, and that
12 is, your index of ton miles performed by various media.
13 These two things were what you considered as being
14 determinant of the railroads' share of the market.

15 A. Well, let us look and see realistically
16 -- I think that is substantially so. I am afraid I
17 was not following the full significance of what you
18 said. I had better be more careful.

19 Q. Well, I wish you would because I do
20 not want to have these answers on the record and then
21 at a later time point to them and have people under
22 the impression that you were not listening to the
23 questions, because if that is so, we may as well stop
24 right now.

25 A. Well, you have a way of summing up
26 things in such a condensed way that it sounds all right
27 at first glance, but not at second listening.

28 Q. I see.

29 A. I do not mean that in an unpleasant
30 way. You are trying to get along and condense things,



1
2 and I agree generally with it, and I am a little gun
3 shy now.

4 Q. You do not need to be gun shy unless
5 your material requires you to be.

6 A. Well, I do not want an argument with
7 you, sir.

8 Q. Let me take a look at your other
9 indicator -- we will leave the G.N.P. I am suggesting
10 to you if you look at Table 37 and recognize that oil
11 pipeline ---

12 A. Could I finish this last subject. I
13 do not want to leave it just the way it is. I started
14 to answer another point here, and I did not realize
15 you were changing.

16 Q. I am not changing it.

17 A. Well, let me finish this point. When
18 I talk about G.N.P. here on page 18 in Chapter III
19 of volume 1 I talk about the fact that the railways
20 have been a relatively smaller share of the U.S. total
21 and also a relatively smaller share of the Canadian
22 total economy. That is a simple truth, and it includes
23 the effect of services and the financial industry and
24 all the activities of the country. The railroads are
25 a declining share of the economy, and that is an
26 incontrovertible point, and I take it there is no
27 disagreement between us on this one.

28 Q. There is most certainly disagreement
29 between us because my point is that you are not by
30 this technique measuring the railways' share of the



1
2 market which is the purpose that you have introduced
3 the material for.

4 A. But, listen to what I have said.

5 I have the chapter headed, "The railway share of the
6 Market". I agree with you I have not added up all the
7 tons -- I concede that. I am trying to get at the
8 overall place of the railroads in the economy, and I
9 merely here, at the bottom of page 18 say that the
10 railways are a lesser share of the total economic
11 activity of the country than they used to be, and it is
12 the same in both countries.

13 MR. MacKIMMIE: That is what he disagrees
14 with. He says it is greater, I suppose.

15 MR. SINCLAIR: No, that is not what I
16 disagree with.

17 Q. I disagree with you in that you cannot,
18 using G.N.P. without adjusting for service factors in the
19 economy to measure the railways' share of the market,
20 and secondly, without adjusting for differences in
21 percentages or the relative importance of service factors
22 of total G.N.P., Canada versus United States, make
23 meaningful comparisons.

24 A. Well, I want to disagree very
25 respectfully on that. I will agree with you 100% on
26 the whole point if you ask me whether I had measured
27 literally the market, and you are taking the word
28 "market" and saying, "you did not do that", and I say,
29 "that is right; I did not do that". But, I am describing
30 here something I did do, and that, I submit, I do not



1
2 think anybody can disagree with in this context. If
3 you ask me whether I did something else, then, no, I
4 did not. But, I did say here that the railways are a
5 declining share of the economy in both countries.

6 THE CHAIRMAN: Can you say exactly, any
7 measurement?

8 THE WITNESS: Not in this sort of
9 comparison at all.

10 MR. SINCLAIR: Q. Can you say within
11 the ball park of measuring market share?

12 A. What you are doing, Mr. Sinclair, is
13 putting a very narrow interpretation on the word
14 "market", and then trying to beat me over the head with
15 it. I will agree I have not measured the markets in
16 terms of tonnage or physical quantities.

17 Q. Or, you have not measured the
18 transportation market?

19 A. This does not do that. I have got
20 another place where I measure the railways' share of
21 the ton miles, which is a physical thing.

22 Q. Notwithstanding this is in a chapter
23 entitled, "The Railroads' share of the market" -- is
24 that right?

25 A. Yes, sir.

26 Q. "The railroads' share of the market"?

27 A. Yes, sir.

28 Q. And the G.N.P. is not the market
29 or the indicator of the markets?

30 A. It is an indicator of the general



1
2 position of the railway in the economy. I submit to
3 you that is a perfectly simple, clear, valid, proper,
4 useful comparison. I then go on --

5 Q. That is your submission?

6 A. If we have a point of difference on
7 that, I want to know about it. Mr. MacKimmie may not
8 agree with this, because we have got a lot of work on
9 it, but if I have got something that is essentially
10 wrong in here I am perfectly willing to withdraw it
11 and make it correct.

12
13
14 --- Luncheon adjournment -
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30



1
2
3 --- On resuming at 2:00 p.m. .

4 THE CHAIRMAN: Order, please.

5 MR. SINCLAIR, Q: Mr. Saunders, has
6 your study of the Canadian economy lead you to believe
7 that in the years 1957 and 1958, for example, that
8 there were atypical influences which worked that
9 affected the price and volume of some of the major
10 components in the Canadian economy to a greater extent
11 than you would find in the United States economy?

12 A. You will have to spell that question out
13 a little bit more for me, please.

14 Q. Well, for instance, had the effect of
15 cereal prices of Canada versus U.S. and the metal
16 prices and their reaction on the volume and income
17 of major Canadian exports had an effect on the G.N.P.
18 for the years 1957 and 1958 that was not evident to
19 the same degree in the United States.

20 A. Well, I am sure there are many things
21 that were very different in both countries in those
22 years and many things which naturally would have an
23 effect on the G.N.P. However, I submit to you that
24 happens every year and when you deal with economy as
25 a whole and you find these trends over a long period
26 of time, I am satisfied that whatever differences there
27 may have been in cereal prices or metal prices could
28 not possibly change the overall trend I may find in the
29 G.N.P. as compared with railway revenue and activity.

30 Q. For instance, you made a comparison with
1958, looking at Table III -1 on page 19 and, as you
explained you did not take every year. I wonder if



you would just write in with me taking the data on the same basis that you have the year 1956 between the years 1957 and 1958 and I will read it across:

Canada

<u>Year</u>	<u>Gross National Product</u>	<u>Railway Operating Revenue</u>	<u>Revenue as per cent of GNP</u>
	(Millions	of dollars)	
1956	30098	1301	4.20

U.S.

<u>Year</u>	<u>Gross National Product</u>	<u>Railway Operating Revenue</u>	<u>Revenue as per cent of GNP</u>
	(Millions of dollars)		
1956	419200	10686	2.52

My suggestion to you, Mr. Saunders, is this: because of atypical situations in the major export industries of Canada in 1957 and 1958 that 1956 would have been a better year for comparative purposes.

A. Well, it is a very interesting question, Mr. Sinclair, but I am afraid we are right back where we were before. I am perfect willing to take any particular year you want to take and discuss what it shows. What I am saying to you is that if you take the whole period of time there is not any question about the general decline in the railway position relative to the rest of the economy; the particular amounts still differ in any particular year, there is no question about that. My simple conclusion was and I take it this is what you are taking issue with



1
2
3 although I still do not know what you are driving at --
4 my conclusion was by 1958 the rolling railway revenue
5 had declined about as much in both countries. Would
6 you say it would be a different conclusion if I used
7 1956?

8 Q. Yes, I am saying it is a different
9 conclusion if you use 1956, I suggest that to you.

10 A. Well, let me see --

11 Q. So you can get the full swing of it,
12 I am sure it did not strike you as being important
13 but maybe you would want to increase railway revenue
14 in Canada by \$70 million also in your figures so we
15 can have normal revenue ---

16 A. What do you mean by that?

17 Q.- This is to give effect to some of the
18 limitations that are peculiar to Canada. If we
19 are going to make a basis with the United States we
20 add \$70 million for grain to bring it on a basis to
21 make it so that there is no special limitation in
22 one country as against another.

23 A. I suppose if we take the annual passenger
24 deficit as in the United States we would add another
25 \$100 million for it.

26 Q. We will talk about passenger deficit
27 later but this is one where we have a statutory limitation
28 in Canada which affects things in Canada but not in the
29 United States. My point is that 1956 would present
30 a different picture if you were using it as a basis
than 1958 and to quite some significant degree?

A. I am afraid I do not really see the



1
2
3 significance of that. Suppose I take 1956 as compared
4 with 1955, for instance. 1956 shows a continuation
5 of the same trend with relation to the previous periods,
6 a little bit less in 1956 than 1955 in both countries
7 and in 1957 it drops a little bit more in both countries.
8 You will notice in 1958 it drops a little bit more in
9 both countries and I do not see that has anything to
10 do with the conclusion I draw. I did not say it
11 was going to stop at 37 per cent or 42 per cent, I
12 am just saying it is clear participation has been
13 declining and that is that.

14 Q. Let me test that if it does not make any
15 difference. Let us look at Table III-3; here you have
16 a comparison to show by dealing with a share of the
17 market the ton miles per capita and per unit of G.N.P.
18 You are relating here ton miles per capita and per
19 unit of G.N.P. - 1938 and 1958. You use this to
20 show the railways decline over this period. Taking
21 those two years as your ---

22 A. Relative to the impact and in absolute
23 terms.

24 Q. I think you made the point ---

25 A. Where do you see that? Are you on page
26 22?

27 Q. No, page 23 where you say:

28 "It can be seen, however, that the
29 total movement by all types of carriers
30 increased from 4400 to 7400 ton-miles
per person -- 69 per cent. We may
anticipate that the general development



1
2
3 of the country will produce further
4 increases in the annual ton-miles per
5 capita.

6 On the other hand, it is to be
7 expected that the rate of growth will
8 decline. This shows up when we analyse
9 trends in gross national product in
10 relation to ton-miles. Again looking
11 at Table III-3, it will be seen that the
12 railroad output per dollar of gross
13 national output has declined from 2.46
14 ton-miles for every dollar of gross
15 national product in 1938 to only 2.25
16 ton-miles for every dollar of gross
17 national product in 1958."

18 A. Well, just a minute now, that is not
19 absolute decline, that is per unit of output. The
20 absolute traffic of the railroads is up 147 per cent.

21 Q. We are working with constants, are we
22 not, G.N.P.

23 A. I just want to keep straight what we
24 are talking about. You suggested in your previous
25 question that I was implying that the absolute level
26 of rail traffic was declining and I did not say that.

27 Q. In a constant basis related to constant
28 dollars in G.N.P., that is not your point.

29 A. If you take what I said, I said output
30 per dollar on gross national output has declined
but when you apply that to a larger volume you get
a bigger total ton mile figure.



1
2
3 Q. I suggest to you instead of having
4 that related to G.N.P., if you take the year I suggest
5 to you, 1956, you will show an increase of nine per
6 cent.

7 A. From 1926 on.

8 Q. From 1938.

9 A. I am sorry, 1938 on.

10 Q. If I take 1938 and 1956 I suggest that
11 figures show that the revenue per ton-miles G.N.P.
12 give you 2.68, an increase over 1938 of nine per
13 cent instead of the decline which you show.

14 A. Well, it could show that, I do not know
15 what it shows.

16 Q. Do you not think, as a statistician
17 and analyst, it is dangerous to make a single year
18 comparison, one year against another one year?

19 A. I certainly would agree with that. I
20 have certainly tried to avoid pinning everything on
21 a single year and I have trends and charts and I
22 have discussed general results. I have to make it
23 in some communicable form from tables to charts.

24 Q. I have given you 1956 and you have taken
25 1958. I suggest to you if you take the two years
26 and average them you will find that there has not been
27 any decline or perhaps maybe a third decimal point
28 or a second decimal point.

29 A. I would not like to limit it to one
30 particular year unless it has a particular broad policy
but you do have to look at the thing in terms of total
trends and if 1956, 1957 and 1958 have a general trend



1
2
3 I would be satisfied. If 1958 is, for some reason,
4 completely out of focus we should not use 1958, we
5 should be guided by 1956, 1957, 1959 and 1960 and
6 all the general figures. I do not hold any brief
7 for 1958 as a year but it just happened to be the
8 latest I had.

9 Q. Let us look at what you say on page 23
10 where you are talking about the decline in participation
11 in G.N.P. in comparing 1938 to 1958 on the table we
12 have been referring to and you say:

13 "This is not entirely a matter of
14 diversion of traffic from railroads to
15 other forms of transportation. Thus, if
16 we look at the total ton-miles generated
17 by the economy (per dollar) and moved by
18 all forms of transport, we find that the
19 trend was down from 4.49 ton-miles in 1938
20 to 4.30 ton-miles in 1958."

21 My suggestion is if you substitute 1956
22 for 1958 you will have to read this way:

23 "Thus, if we look at the total ton-
24 miles generated by the economy (per dollar)
25 and moved by all forms of transport, we
26 find that the trend was up from 4.49 ton-
27 miles in 1938 to 4.82 ton-miles in 1956."

28 A. Well, I can accept that, Mr. Sinclair.
29 The only point there is that it does not really matter
30 whether it is up or down 4 per cent or 5 per cent
or whether 1956 was a higher or lower figure than 1958.
The real question is what is the trend and obviously



1
2
3 you do not take the year 1956 and stop there and say,
4 "I don't care what happens after that, 1956 is a
5 good year". No one would do that. If you are figuring
6 out the trend I am perfect willing to substitute a
7 group of past years, not just from 1938, and take
8 a group of years at the beginning of the period and
9 up to recent times and come to some conclusion about
10 it on whatever the facts show. It is important to
11 know, not just that 1956 is better than 1958.

12 Q. All I am suggesting to you is that you
13 take one year, 1938 to 1958 and I am saying if I took
14 another year, 1956 I come to a significantly different
15 conclusion.

16 A. We are not taking years as a game, we
17 are trying to find out what is wrong with Canada's
18 transportation. There is no significance to 1956.

19 Q. Or 1958?

20 A. I am perfect willing to take a group of
21 years to show what the trend is.

22 Q. We were trying to measure the share of
23 the market in all these calculations and to draw a
24 definitive result.

25 A. Yes, sir, and I would be perfectly
26 willing to agree with you. I used two single years,
27 I looked at the charts, I do not recall how many charts
28 we put in, perhaps we did not put any in but that was
29 data we all had and we can look at it. On page 21,
30 that shows the absolute amounts of the railway revenue
as a proportion of G.N.P. There is no mystery
about it, it is not an intellectual exercise. The



1
2
3 question is whether in fact the railway share of the
4 market is declining. Now, you can take this
5 particular figure -- maybe 1958 was not as normal
6 a year as 1956 or the average of three years or some
7 other number but having said that and having created
8 this I do not know that we could have it in terms of
9 something -- is it wrong or is it not.

10 Q. Let us look at the next table which is
11 the third basic statistical comparison and evaluation
12 that you did in measuring the railroads share of
13 the market. This is at page 28, your table III-6.
14 You have set out in this table the pipeline generation
15 of ton-miles.

16 A. Yes, sir.

17 Q. Now, would you look upon pipeline ton-
18 miles as a true generation or a substitution.

19 A. You mean substitution for rail?

20 Q. Yes, it is rail you are measuring against
21 the total.

22 A. I do not quite get what you are driving
23 at -- true substitution, true generation or substitution?

24 Q. What you are saying is, "Look at what
25 has happened, railway has dropped from somewhere
26 over 60 to the low 50's". In other words, its
27 share of transportation in Canada is smaller and that
28 is an important factor to show the problem of rails?

29 A. That is right.

30 Q. So I am asking you when you get down
to the end figures that you have and you have introduced
pipeline ton-miles, I am asking you whether these



1
2
3 pipeline ton-miles in your opinion are generation,
4 true generation of ton-miles or -- in other words, they
5 built them themselves, they are new ton-miles so are
6 they substitution ton-miles for traffic that once
7 moved by rail?

8 A. Well, that is hard to say, I am afraid.
9 If you would ask what is the total distribution, let
10 us say, of foot pounds of energy in the Canadian
11 economy or some other equated figure, perhaps it
12 would show up a little more clearly what you are
13 driving at. Petroleum is a substitute for another
14 form of energy.
15
16 -
17
18
19 -
20
21
22
23 -
24
25
26
27
28 -
29
30



1
2 Q. It is your phrase that I am trying
3 to test out, Mr. Saunders. You say, after pointing out
4 these various percentages to total, you say -- after
5 saying that you hit the height during the war period --
6 you say, "Since that time there has been a fairly steady
7 erosion. By 1958 the rails accounted for only 52.3% of
8 the total traffic, and in that total traffic there is
9 13.4% pipeline", is that correct?

10 A. Yes.

11 Q. My question to you is that by using
12 the word "erosion" you are saying, I take it, that
13 pipelines have substituted for rail in the ton miles
14 that are now ascribed to pipeline in the statistics;
15 does that not follow from your statement?

16 A. I think that is not entirely right,
17 but in terms of the total movement of physical
18 quantities in the country pipelines have taken an
19 important grouping as ton miles away, and rails are
20 hauling a lesser share than they used to. However, there
21 is a missing step here, and I think maybe this is
22 what you are driving at. Some of the traffic that moved
23 by pipeline is new traffic, let us say --

24 Q. Generation.

25 A. It has nothing to do with Canadian
26 industrial development at all, per se, but let us say
27 it is used for export directly and if petroleum had
28 not been discovered the export movement would not have
29 taken place by rail, so there is no substitution.

30 Q. That is right.



1
2 A. I agree that it is a fact to be
3 recognized, on the other hand, when you develop a
4 petroleum industry in an area you are creating a
5 competing fuel for coal, and to the extent that
6 industries and consumers generally substitute petroleum
7 for coal, they are substituting a demand for a commodity
8 that moves by pipeline generally for a demand for a
9 commodity that moves by rail generally.

10 Q. And that would be the only type which
11 could be described as erosion; that is, the new generation,
12 which would not have been in the economy, the
13 transportation economy of Canada in any event, but should
14 be, to make the figures comparable, removed; is that correct?

15 A. It is a very interesting question.
16 I can see how there would be room for such a comparison as
17 a supplement to what I have shown. I do not think
18 this is a substitute for what I have shown; I think it
19 is an important fact in itself, but I would not object
20 to taking another step and saying within that how much
21 is new.

22 Q. Just let me do this to help -- if
23 it is helping -- let us drop the pipeline entirely, and
24 then taking them out of both sides of the equation and
25 then calculating the rail share, I suggest to you that
26 from there you will develop that the railways have about
27 60 to 65% of the transportation market, and then from
28 that you would have to discuss what is a true
29 substitution or erosion of traffic through this
30 development of pipelines.



1
2 A. I am sorry, Mr. Sinclair, but I
3 think if you go down this road that it is a two-way
4 street and you have to go down all the way. If you
5 are going to say to me we have to exclude things which
6 are new in order to determine the erosion, all right,
7 we will have to exclude the ore traffic, that was new,
8 newly generated, and it is in the rail figure. However,
9 if you want to limit it only to the commodities and the
10 physical activities that existed in your base here ---

11 Q. Let us start again. I think you have
12 fallen off even on the basic logic that you have got to
13 have it moving at the beginning of the period by rail,
14 and then have some new transportation agency evolving
15 to take it from rail and move it by the new
16 transportation agency .

17
18 A. That is the assumption you started
19 off with me.

20 Q. But you did not do that with the new
21 one, because it did not move by rail at one time and
22 then move over?

23 A. I say that I wanted to take it out
24 of the base figure; that is my point.

25 Q. It is a question of share of the
26 market.

27 A. And now you are going back to my
28 first point. You cannot have it both ways.

29 Q. I think you have taken it both ways.

30 A. No sir, I say I agree with you that



1
2 if one could take the petroleum out as a separate study
3 because it is newly generated, and was not in the
4 figures proven in the base period, I think that is
5 quite a proper step to take, and the only limitation
6 I could put on you, if you are going to do that, is
7 that you ought to take out the other new things not
8 being shared in the business year.

9 Q. Are you being serious about this?

10 A. Certainly I am; absolutely dead
11 serious.

12 Q. Maybe you have not understood me.

13 A. Possibly.

14 Q. And perhaps your table was to show
15 the railways' share of the transportation market.

16 A. That is right, in each year.

17 Q. No, by comparison.

18 A. That is right.

19 Q. By comparison of trends, and you
20 said that there was erosion over the period from rail
21 to another transportation media, correct?

22 A. That is right.

23 Q. And I am suggesting to you that in
24 measuring that erosion, to properly assess the
25 true rail share of the market that you cannot take
26 the generation of ton-miles and the media, but can
27 only take the substitution ton-miles and the media
28 if you are going to use the data to measure the
29 decline in rail transportation in its importance; do
30 you agree with that?



1
2 A. Well no. No sir. Let us take it
3 in pieces; maybe this would help. Suppose we just ask
4 ourselves the questions, let us look at the manufacturing
5 commodities in each year of this study period. We
6 would not get into petroleum or gas, and would not
7 get into coal and iron ore and the developments of
8 the things that are troubling you, but let us look at
9 the manufacturing ton miles, and what we see here are a
10 group of industries that used to ship 100% of their
11 traffic by rail, and we could very well ask
12 ourselves then what share of their business do the
13 railways get now. This would be, it seems to me, a
14 perfectly fair and proper question to ask, and I am
15 saying to you here that all you would find is that the
16 railway 's share of the market has declined substantially.
17 Now I think if we take that commodity by commodity,
18 leaving out the new industries on both sides of the
19 equation, new rail and pipeline industries, if you will,
20 pipeline and consuming industries, I think you will find
21 that the railroad share of the market has declined for
22 every category of traffic. The percentage of decline
23 could be different for manufactures, as obviously there
24 is a much greater decline in manufacturing than the
25 products of forests, but there is no question about
26 the general decline of the railroads'share of the
27 market if you take like with like.

28 Q. Mr. Saunders, can we agree on this,
29 that statistics and comparisons are open to various
30 interpretations; would you agree with that?



1
2 A. I did not know that that was the end
3 of the question, it seemed an odd place to end it.
4 Well, there is only one answer to that; sure, any
5 statistics are subject to different interpretations,
6 but I think that we have to be reasonable with each
7 other and try to see whether or not we are answering
8 the problem and what is the best answer we can give
9 here to this question.

10 Q. And various refinements, such as I
11 have been suggesting to you can be made, but you are
12 saying to this Commission, "Let us look at the
13 refinements suggested and see if it really materially
14 affects the results." Is that your position?

15 A. Well, I would say that is a very
16 important and perhaps the most important point to make
17 about any of this. I think you have to ask yourself
18 whether what you are talking about here is a criticism
19 or whether there is a principle that destroys the
20 conclusion which I have drawn.

21 Q. And the basic thing is, you have to be
22 careful in applying the base years or the comparisons
23 between the base years is to watch for atypical results,
24 correct?

25 A. That is one of the things you look
26 for.

27 Q. And to make sure that you are making
28 a judgment interpretation in the light of the
29 environment that produced the figures, correct?

30 A. I do not quite understand that point.



1
2 It sounds that it ought to be very reasonable, but I
3 am not sure I understand it.

4 Q. Let us see if we can do this; I took
5 a note this morning and you said this in your address
6 this morning:

7 "Canadian economy depends on the effects
8 of Canada's railway system as it is today."
9 Do you remember saying that?

10 A. Something to that effect, yes sir.

11 Q. Would you agree with this; the railway
12 system as it is in Canada today is dependent upon the
13 effects of the Canadian economy.

14 A. I may have to clarify what you mean,
15 or you may have to clarify for me what you mean by
16 "dependent" there. It is my position that the Canadian
17 railway system does not have to be what it is today
18 even though the economy of Canada is what it is today.
19 That is exactly the point of issue here. I do not see
20 how I could possibly agree with that without saying that
21 I might as well close up volume I and volume II and go
22 home. It is that fundamental, and if I haven't gotten
23 through on that point, I certainly missed somewhere.

24 Q. What I am suggesting to you, Mr.
25 Saunders, is that my using the environment as an
26 explanation of the effects, results in one conclusion,
27 but turning it around and saying that the effect is the
28 environment, results in another conclusion.

29 A. I just do not understand you there,
30 Mr. Sinclair. It seems to me that we are talking about



1
2 something very practical and not a philosophic thing
3 at all. In framing the question, "can nothing be done
4 about the miles of tracks and the operation?" you are
5 suggesting there is nothing that can be done and there
6 is something sacrosanct about the fact it is here.

7 Q. I am not suggesting there is anything
8 immutable about the Canadian economy.

9 A. I am talking about the railway system.

10 Q. Or am I suggesting that you can by
11 statistics or comparison with the fact that the railway
12 system in Canada is there to serve a specific economic
13 environment.

14 A. I understand that, certainly.

15 Q. And that the railway system was caused
16 and made necessary and is now necessary by that economic --

17 A. No sir.

18 Q. Pardon?

19 A. No sir.

20 Q. You do not agree?

21 A. Absolutely no, sir.

22 Q. And you say the reason you do not
23 agree is because you have made comparisons with the
24 United States that indicate a different basis, correct?

25 A. No sir.

26 Q. Then, what is your basis?

27 A. It is 136 pages of volume 1 and a
28 number of pages in volume 11.

29 Q. What were all these comparisons with
30 the United States meant to convey?



1
2 A. The part of the picture that shows
3 the relative intensity on use of facilities in Canada.
4 As I said before the noon recess, I am developing the
5 total picture; the role of transportation, the railroad
6 share in that transportation and the role of government;
7 all those things that led me to the ultimate conclusion
8 which I summed up this morning.

9 Q. If the relative degrees of intensity
10 of use were a necessary factor in whole or in part of
11 the economic environment that produces them, then you
12 should weigh them in the comparisons where they are
13 not meaningful.

14 A. I think I have weighed them. Now look
15 -- I should not say "now look"; I apologize for that,
16 but we understand each other, and we say that the total
17 traffic density is much lighter in Canada than in the
18 United States, and you might be right if we stopped
19 there and did nothing more and closed the book and went
20 home, but we did not stop, we said why it is lighter.
21 Now, is it possible for the reason you suggest, or is
22 there something else, and we went back in and analyzed
23 the miles of track area by area and segments by segments,
24 and we found out that the reason it is lighter is that
25 there are many miles of tracks which are of light
26 density and that sit by themselves, and if you operate
27 those miles of track you must have light density. We
28 understand that Canada has a great many miles of this
29 type, and that is fact one. That is the nature of the
30 beast.



1
2 Q. The nature of which beast? The nature
3 of the economic beast, which is Canada?

4 A. The nature of the beast which serves
5 this particular point, from point A to point B off the
6 main line, and as it happens, right next door is another
7 beast for serving the same point or one right next to it.
8 Those are some of the economic facts which we show, and
9 my maps demonstrate that, and all I am saying is that
10 I understand in the overall that the traffic density
11 is lighter because there is less traffic, and I am also
12 saying when I look at it I see the place where the traffic
13 is light and I see possibilities of consolidation and
14 integration and rationalization, and so forth.

15 Q. You see that from looking at a map,
16 Mr. Saunders?

17 A. Yes.

18 Q. You do.

19 A. Yes, and from the data that underlines
20 that map.

21 Q. Well, Mr. Chairman, I will return to
22 this at another time, but I now wish to ask Mr. Saunders
23 a few questions on volume II if I may, and I will return
24 to volume I later and particularly to the assessment of
25 the economics as it applies to the railway lines of
26 Canada and he finds them on the map.

27 Now, in volume II in your submission to
28 the Commission you deal with a costing method used by
29 the Canadian Pacific to develop the difference between
30 revenue and expenses to move grain to export positions



1
2 in western Canada, right?

3 A. I think, yes sir, I did deal with your
4 cost study.

5 Q. Now, Mr. Saunders, you have made cost
6 studies before.

7 A. Yes sir.

8 Q. And I am going to ask you this question;
9 based on your knowledge and experience in transportation,
10 did you think that the Canadian Pacific hauling grain at
11 one-half cent per ton mile on the average is receiving
12 just and reasonable rates for the movement of that
13 grain in relation to the freight rate structure of
14 Canada as a whole.

15 A. "Just and reasonable" is a pretty
16 loaded pair of words.

17 Q. You have used it in some of your
18 proceedings.

19 A. I suppose I have, and it has a certain
20 context.

21 Q. It has no different context in rate
22 making in the United States than in Canada, has it?

23 A. Well, I do not know. "Just and
24 reasonable" is a phrase that lawyers have a kind of
25 a special claim on.

26 Q. They have? I thought that the
27 economists had.

28 A. I use it, but I will not get into
29 an argument with you as to what it means in Canada.

30 Q. I am asking you a question, and it



1
2 seemed that it means the same as the way he would have
3 used it in the past in the Southern Governors Grain Case,
4 and I ask you whether by using "just and reasonable" as
5 you have used it in the Southern Governors Grain Case,
6 and whether it is based on your knowledge and experience
7 -- and that is all you can base it on -- will you tell
8 this Commission that Canadian Pacific is receiving,
9 at an average of one-half cent per ton mile for the
10 movement of grain to export positions, a just and
11 reasonable rate for the movement of that grain in
12 relation to the freight rate structure in Canada as a
13 whole?

14 A. I just have not addressed myself to
15 that question.

16 Q. You mean you do not want to answer it?

17 A. I did not say that at all. I say I
18 have not addressed myself to that question.

19 Q. Well, do it now.

20 A. I cannot just do it ---

21 MR. MacKIMMIE: I think I have something
22 to say on this matter. Mr. Saunders' study has been
23 presented and my friend has had it for some months. There
24 was no effort whatever made to make any specific cost
25 on the movement of grain, and surely when the witness
26 says, "I have not studied the problem" that my friend
27 will not tell him to study it now.

28 MR. SINCLAIR: He says, "I have not
29 addressed myself to that question", and I am asking him
30 to address himself to that question now.



1
2 MR. MacKIMMIE: You can read, that is what
3 I mean. You know that he never discussed that --

4 MR. SINCLAIR: Q. I wonder if Mr.
5 Saunders could address himself to that question.

6 A. It is an important element, indeed.
7 Obviously "just and reasonable" takes into account a
8 great many questions of rate making, one of which is
9 cost, and there are other factors as well.

10 Q. Let us forget about just the detailed
11 cost study and pass to your experience in handling
12 matters of specific commodities -- your general
13 experience in answering questions -- and address
14 yourself to the question which was put to you, just on
15 your general experience.
16
17
18
19
20
21
22 -
23
24
25 -
26
27
28
29
30



1
2
3 A. I don't think it is a fair question just
4 to have me stand up here and say the rate of half
5 a cent a ton-mile is obviously not just and reasonable
6 because it is lower than rates generally. It is
7 obvious it is lower than the average Canadian per ton-
8 mile, but I don't think that is the be-all and end-
all of the question.

9 Q. The average revenue per ton-mile in
10 Canada, the C.P.R., exclusive of grain, 1958, let us
11 say 1.8 cents per ton-mile: so, the .5 is
12 substantially different. Does that help? These
13 figures are all on the record.

14 A. I am sure they are on the record, but
15 you know perfectly well you can't just look at the
16 revenue per ton-mile and not go into the question of
17 length of haul and load per car and all the other
18 considerations your traffic department, I am sure,
would do in a conventional situation.

19 Q. Well, the revenue for the average length
20 of haul in Canada -- take 700 miles at 20 cents a
21 hundred -- Regina to the Lakehead: 20 cents a hundred,
22 700 miles. In the Southern Governor's grain case you
made a very intensive cost study?

23 A. Yes.

24 Q. Do you remember what you got as the
25 lowest figure for a haul of 700 miles?

26 A. No, I don't remember. You mean on the
27 -- well, I don't remember either.

28 Q. The out-of-pocket costs?

29 A. I don't recall.
30



1
2
3 Q. I suggest to you it is 51 cents, out-of-
4 pocket costs -- the lowest figure you got from your
5 study for a 700 mile haul?

6 A. I don't recall.

7 Q. I may have misinterpreted the figures,
8 but you are familiar with the documents?

9 A. It is a year old now.

10 Q. Oh yes, this is way back on 1953 figures,
11 so you would expect it to be higher today. My
12 recollection was 51 cents.

13 A. Well, without bothering to find the
14 figure ---

15 Q. I have it, thank you.

16 A. The rate structure is so different; the
17 services are different.

18 Q. Just let us look at it: out-of-pocket
19 costs, Saunders, 51 cents south to south; 57 cents,
20 official to south; 61 cents west to south; 700 miles,
21 short line miles?

22 A. Yes, sir. The only trouble with that is
23 that in the U.S. study we have a very important
24 transit situation. We have circuitry of 30 or 40
25 per cent. We have two or three transits on the
26 average shipment, and I am talking about a commodity
27 that moves in at, say, 100,000 pounds and moves out
28 at, say, 30,000 pounds.

29 Q. Well, you get that business of the flour
30 in any circumstances with these mill stuffs?

A. To the extent you handle it, but the
point is you don't have it.



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

Q. Well, Mr. Saunders ---

A. You don't have $2\frac{1}{2}$ or $3\frac{1}{2}$ transit handlings. I don't suppose you have got more than one per cent or two per cent of transits in the grain business.

Q. But I have given you quite a range: the lowest, south to south -- and that is in the balmy south ---

MR. MacKIMMIE: The deep south.

MR. SINCLAIR: Thank you.

THE WITNESS: But that is in the swamp forests.

MR. SINCLAIR: Like the bogs east of Winnipeg?

MR. FRAWLEY: There would be a minimum of winter switching.

MR. SINCLAIR: Q: Is there any winter switching under those conditions?

A. They switch in the wintertime too, sure.

Q. With any difficulty with snow or ice or cold weather?

A. Not as much.

Q. Any difficulty?

A. Well, I think it is a little silly ---

Q. Now, I have given you the figures you developed from an intensive cost study, and you got 51 to over 60 cents out-of-pocket costs: in the light of that I am asking you to tell this Commission, based on that intensive study and the work you have done here over the last year and a half, whether you can say to this Commission that the Canadian Pacific Railway in getting an average of a half a cent per ton per mile for an average haul of 700 miles is



1
2
3 getting a just and reasonable remuneration for the
4 handling of grain?

5 A. It is perfectly obvious the question is
6 not very simple or you would not have had to spend
7 all the time and money on it which you did. If it
8 is that simple you could have had Ford Edwards come
9 up and put in his exhibit and rested your discussion
10 and it would have been the end of it. It is just not
11 that simple, as everyone in this room appreciates. I
12 just can't answer that. I can say I don't know whether
13 or not these rates are compensatory.

14 Q. You don't know that?

15 A. On an out-of-pocket basis.

16 Q. You don't know that?

17 A. That is right, and the reason I don't
18 know that is that I would have to jump from our southern
19 study to these circumstances and evaluate the effect of
20 5,000 ton trains as against 3,000 ton trains; the
21 effect of volume switching as against single and one
22 or two car handlings of traffic at many of these
23 points and a whole host of factors that are just
24 different.

25 Q. You, as an economist, have to from a
26 knowledge of limited statistics sometimes make a
27 judgment appraisal. You have shown that in parts
28 1, 2 and 3 of your volume 1, just by applying that
29 nice generalization and feel that you, as an economist,
30 have -- would you like to answer the question?

A. I am just not prepared to do that. This
is too important a thing to just pass off lightly



1
2
3 just on a suspicion. Obviously, these rates, are
4 subject to suspicion, as you suggest, because they
5 are very low compared with your average traffic. You
6 may have other rates that are as low. I am not
7 prepared to evaluate all the circumstances in that.

8 Q. Well, Mr. Saunders, you understand in
9 Canada that all freight rates must by law be just and
10 reasonable and are changed and altered as required by
11 changing circumstances and conditions with only one
12 exception, and that is the movement of grain to
13 export positions in western Canada? You know that --
14 section 328 of the Railway Act and 33 and 34 of
15 the Transport Act?

16 A. I believe that is right.

17 Q. You know the railways are required to
18 move grain to export positions by the statutory
19 provisions in the Railway Act at the level established
20 in 1899; correct?

21 A. 1899 or 1897.

22 Q. It is three cents below the 1897 level --
23 let us do that: you draw to the attention of the
24 Commission that Canadian Pacific must move grain to
25 export positions at three cents a hundred less than
26 they recovered in 1897.

27 A. But a number of the adjustments have been
28 voluntary. I think it was in 1938 that the head of
29 the Canadian Pacific said he was satisfied with the
30 grain rate structure.

Q. Did he say that?

A. That this was a good thing for the farmers



1
2
3 and the railways.

4 Q. I suggest to you he didn't say that at
5 all. Are you talking about Sir Edward Beatty?

6 A. Yes, sir.

7 Q. He said, "I think that the people that
8 made the Crowsnest Pass Agreement made a good agreement
and a good bargain ---

9 MR. MacKIMMIE: And good for the railways.

10 MR. SINCLAIR, Q: Good for the railways and
11 good for the farmers too; isn't that quite true?

12 A. -- I will accept that amendment.

13 Q. You are not going to suggest that the
14 movement of grain as it is now moved from western
15 Canada to export positions is being moved pursuant to
that agreement, are you? Have you studied it?

16 A. Yes, but I am not sure -- I don't understand
17 your question.

18 Q. Did you know that agreement was limited
19 in the direction of movement?

20 A. Oh, yes.

21 Q. It was limited to stations in existence
in 1897.

22 A. Well, by its very nature the agreement
23 could only cover what the circumstances were at that
24 time, and it was only subsequently broadened.

25 Q. The agreement provided specifically for
26 movements between specified stations, I suggest to you,
27 and that may have been a good bargain, and good for
28 the farmers and railways alike, but it could become
29 a very bad bargain where you had an increase in shipping
30



1
2
3 points extended by over 1,000 per cent: would you
4 agree with that?

5 A. Certainly that could very well be the
6 case, but that is not what he said.

7 Q. He may have said something very close
8 to that, Mr. Saunders, but at least you admitted it
9 could be. The problem assigned to the cost section
10 of the Department of Research of the Canadian Pacific
11 Railway was to develop the revenues and costs on the
12 western Canadian export grain of Canadian Pacific;
correct?

13 A. I don't know.

14 Q. Have you read the transcript? This
15 question was asked by one counsel as if there was
16 a different problem that they were given. Do you
17 think there was any different problem? This is the
18 way you are assigned a job: "Develop the revenues
and costs and make a study"?

19 MR. MacKIMMIE: Mr. Chairman, my friend is
20 asking this witness what the Canadian Pacific people
21 were told to do, which is pure nonsense. Mr. Saunders
22 ought not to know what they were told to do. Mr.
23 Saunders is not here to answer what Canadian Pacific
were told to do.

24 MR. SINCLAIR: Q: Let me put it this way
25 to you: in making a cost study for the movement of
26 a particular commodity, what the cost analyst and
27 his associates must do is to develop the revenues and
28 associated costs of the movement; correct?

29 A. That is one way to do it.
30



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

Q. You think there is another?

A. Yes, sir.

Q. What is the other way?

A. I suggested in volume 2 beginning at page 12 that we have to ask ourselves what our purpose is in terms of managerial purposes and actual versus standard costs.

Q. We will deal with those later.

A. Well, I am sorry ---

Q. I am asking as to what you say in part II as actual and standard costs -- have you ever been -- in the Southern Governor's case did you look at actual versus standard costs?

A. No, sir.

Q. Tell me, in the Divisions case did you look at actual versus standard costs?

A. No, sir; it is a different kind of question.

Q. In the Seatrain case did you look at actual versus standard costs?

A. For Seatrain we did.

Q. Who for?

A. Seatrain -- the management of the company.

Q. I mean when you objected to the rates of the railway -- you have acted for Seatrain in a number of cases?

A. Yes.

Q. For the ICC, for their presentation?

A. For Seatrain's management, and in the presentation before the ICC we recommended to them, and



1
2
3 we have used a technique which says, "What is the
4 plant for? What is it designed to do? What is the
5 normal efficiency and capacity of that vessel for
6 handling the cars?", and that is the technique we
7 applied in developing the costs.

8 Q. What docket was that for, do you remember?

9 A. I guess the first one was a docket known
10 as 33257 which is a pulp board study, and others
11 subsequently.

12 Q. In the Aluminum case, do you remember
13 your office ---

14 A. For Seatrain?

15 Q. No, in the Aluminum case in which they
16 appeared in regard to ---

17 A. Yes.

18 Q. You remember the docket?

19 A. I don't remember the number.

20 Q. But you remember the case?

21 A. Yes, sir.

22 Q. Did you take actual or standard costs in
23 your analysis in that case?

24 A. As far as the rail costs were concerned
25 we were a little handicapped because of the nature of
26 the problem. We could not take anything but utterly
27 average costs.

28 Q. That is an interesting matter: "Utterly
29 average costs" -- do you mean by taking utterly average
30 costs that this is a very poor technique in costing?

A. Yes. If you are after the out-of-
pocket costs, you certainly don't get an actual



1
2
3 representation of out-of-pocket by using these
4 averages. But it depends on your question as to
5 whether you may want to make the extra effort to
6 revise it.

7 Q. In these appearances before the ICC,
8 one of them the Southern Governors' case, and the other
9 was the Transcontinental case; correct?

10 A. Yes, sir.

11 Q. In those cases you made cost studies to
12 justify rate levels?

13 A. Not entirely.

14 Q. I suggest to you the cost study you did
15 enabled you to say under oath, "Based on my cost
16 studies, if such and such a rate were in effect it
17 would be non-compensatory"?

18 A. Yes, sir. I would say the same thing
19 here if I were doing the same job. If the figures
20 showed that, that is what they would show.

21 Q. In costing before the ICC, shippers,
22 railroads and other transportation agencies develop
23 costs and they are relied on and used to determine
24 rate levels; correct?

25 A. Yes, sir, and some are better than others.

26 Q. Yes, and in costing before the ICC the
27 basic technique is known as rail form A costing
28 procedures?

29 A. That is what most people use, I will
30 agree with you.

Q. As a matter of fact, in the studies you
have done down there, you use it as your basic costing



1
2
3 procedure, do you not?

4 A. Where we can we use it simply as a point
5 of departure. We don't live with it if we can get
6 substitution of actual for average.

7 Q. But in many cases, notwithstanding the
8 fact that you could not get these separations, you did
9 use averages...

10 A. Yes, sir.

11 Q. ...and you were quite confident in
12 presenting the results of your study and asking the ICC
13 to take action in regard to them; correct?

14 A. That is right.

15 Q. For instance, in the Southern Governors'
16 grain case outside of southern territory you didn't
17 even, because you didn't have the data I presume,
18 separate between way and through trains; do you
19 remember that?

20 A. I don't recall. I am sure I have done
21 that on a number of occasions, but I don't have the
22 information. I don't know about that particular one.

23 Q. Your evidence in this Southern Governors'
24 grain case, page 19 (indicating)?

25 A. Yes, I did.

26 Q. Now, under the basic techniques of the
27 ICC, what they do is take an overall average of
28 variability; for instance, 80 per cent of all operating
29 expense?

30 A. Yes, sir.

Q. Fifty per cent of cost of money on road
property?



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

A. Yes, sir.

Q. One hundred per cent of cost of money
on equipment?

A. That is right.

Q. And in evolving their investment cost
they take the present value of lands and rights; correct?

A. That is as far as the ICC itself is concerned,
yes sir.

---Short recess.



(Sinclair)

1
2 THE CHAIRMAN: Yes, Mr. Sinclair.

3 MR. SINCLAIR: Mr. Saunders, when you said
4 that rail form "A" was within the average and that in
5 some instances you made specific studies to cover some
6 of the factors on an individual railroad by movement,
7 you meant by this you supplemented the rail form "A"
8 data by special studies; is that what you mean?

9 A. Well, substitute to the extent possible.

10 Q. But in making these special studies
11 in the cases you have been associated with and in the
12 cases that you know like the Southern Governors' Grain
13 Case and the intensive cost study you did, you did not
14 make nearly as many special studies or introduce the
15 tracing to the degree that was done by the railways in
16 this grain case study which is before this Commission.

17 A. No sir. I have a very high opinion
18 of both studies as techniques and as an advance in the
19 art and so forth. I have never suggested that they had
20 not done fine work.

21 Q. Now, in the use of cost for rate
22 making purposes you cannot fix the rates on out of
23 pocket costs, you have to take into account an equitable ap-
24 portionment of constant costs and look at the total
25 cost of moving grain. In the Southern Governors' Grain
26 Case I think you did make an apportionment of costs to
27 the traffic you were studying in the case.

28 A. Well, you have to be very careful
29 with that. I think I have always been careful to say
30 that fully distributed costs is not a meaningful



1
2 calculation in and of itself except as a way of showing
3 what it is over the prorata of the constant costs, over
4 the traffic on a unique basis. It is not the way to
5 make the rate. I just cannot conceive of not having said
6 in connection with anything of that kind that one must
7 be very careful not to use such a principle as "the
8 rate" as a final determinant of the rate.

9 Q. I think those were the words you used,
10 it won't be the final determinant of the rate; would
11 that express your view?

12 A. I would go stronger than that on it
13 because it is just an interesting principle.

14 Q. It is more than that, is it not,
15 because you would be the first, I am sure, to say that
16 you must not make rates on out of pocket costs alone.

17 A. You mean at the out of pocket costs
18 level?

19 Q. Or some sliver above it.

20 A. You make the rates as high as you can.

21 Q. But the out of pocket cost is
22 determined only for that reason to show that if you go
23 below that then you are in an absolute burden position;
24 is that not so?

25 A. That is right. If you go below out
26 of pocket costs you have inflicted a burden on the
27 operation.

28 Q. And beyond the out of pocket costs
29 you will look for placing of traffic in its relative
30 position in the freight rate structure and you have



1
2 account for it, I suggest, what on the statistical basis
3 the volume of that traffic would draw or should draw of
4 the total cost of the operation.

5 A. No sir, I do not think that is so.
6 You can do that, it is a mathematical exercise to do
7 that, but when you have gone above the out of pocket
8 cost level your objective in finally picking the rate
9 you want to set is maximized. You do not say, "I am
10 going to put this rate at \$3.00 a ton because that is
11 what the fully distributed cost is". If \$3.00 a ton did
12 not maximize your revenue you would use something else.

13 Q. But if it is below, something else
14 must cross-subsidize it, the total cost must be earned.

15 A. It is not a question of subsidizing
16 it.

17 Q. Its cross-subsidization, I said.

18 A. Yes, I heard you. It is not a question
19 of cross-subsidization. You still want to maximize your
20 revenue and if you get as much as you can out of the
21 traffic and it is less than its average contribution,
22 that is, all fully distributed costs must themselves average
23 the revenue need and, gee, I would like to have that
24 as a direction but you do not make high rates go down
25 to that degree, and you do not make low rates go up
26 to that degree.

27 Q. Now, in the Southern Governors' Grain
28 Case you did get constant costs favourable to traffic
29 and I suggest to you you did it on a ton and ton mile
30 apportionment basis.



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

A. Yes, sir.

Q. And if this cost study of Canadian Pacific used a ton and ton mile apportionment of constant cost, you would have increased the total cost for the movement of grain to export positions in western Canada by \$12 million dollars, would you agree?

A. Now, you are way beyond -- you are not talking to me now, you are talking to Mr. Stenason. I have not done a thing with this point on calculation of the grain deficit. I do not know what the result would be if you used ton and ton mile apportionment as far as grain is concerned.

Q. Did you look at the evidence of Dr. Ford K. Edwards in this case relative to the cost study?

A. Yes, I did.

Q. I suggest to you in that evidence his evidence was if you average a ton and ton mile base instead of the percent variable base computed by the Canadian Pacific, the result would be an increased total cost of \$12 million dollars.

A. That may be but it is nothing I had anything to do with.

Q. You did not check this out?

A. No, I made no attempt to evaluate this whole subject.

Q. But the ton and ton mile basis is a basis that you used when you costed out grain in the Southern Governors' Case?

A. That is true but I will merely say to



1
2 you that it is an arbitrary and a rough kind of principle.
3 I did not give it any weight, I never have, and if I
4 showed it to you it would be there and that is the end
5 of it. It is only put in because people are always
6 shouting about fully distributed costs but it has no
7 rate making significance.

8 Q. In your opinion the place of the rate
9 in the rate structure that will enable traffic to move
10 freely and maximize revenue is what governs the level?

11 A. I would put it this way, that
12 management's problem is to find that rate which will
13 permit the maximum tonnage to move and produce the
14 maximum net revenue.

15 Q. And in doing so not to distort the
16 overall rate structure.

17 A. I do not know what you mean by
18 "distort the overall rate structure". If you are talking
19 about some schematic diagram that somebody has, a
20 classification form that shows everything has to be
21 40% of first class or we are going to quit, it may be,
22 but I do not think those rates are made realistically.

23 Q. Well, Mr. Saunders, in approaching
24 rate making and in evaluating costs to assist tribunals
25 in fixing a proper level of rates, you are not one of
26 those that thinks this is an impractical thing? You do
27 not think cost finding in railways is impractical?

28 A. No, I think it is a very important
29 necessary thing today.

30 Q. And it is, I am sure in your view and



1
2 in the view of many people with whom you have associated
3 before tribunals, a technique of evaluation that can be
4 relied on by those tribunals with confidence.

5 A. Well, I think that is where the problem
6 is a little difficult to give a simple "yes" or "no",
7 if I can state that way. There is no question you can
8 make cost studies, I can make a study and John Stenason
9 can make a study and there may be different ways of
10 approaching the problem. The real difficulty is to
11 try to decide what is the real question of the railway.
12 I have to find out what is the nature of the problem.
13 Now, if it is just some general problem, just any old
14 rate you do not have to do very much on study where you
15 are not arguing about some policy question as we are
16 here in this particular hearing which is not just a
17 study but a very special and unique question; A question
18 that is wrapped up in national policy and the history
19 of Canada. It is not the sort of thing which you would
20 do, I submit it is not the sort of thing one would do in
21 quite the same way as if one was appearing before the
22 Board of Transport Commissioners to discuss an agreed
23 charge on steel. That would be quite a different study,
24 a much simpler study.

25 Q. But, Mr. Saunders, studies much less
26 precise, much less refined, much less reliable have been
27 used by the Interstate Commerce Commission as a basis
28 for determination of rates affecting substantial
29 volumes of traffic in the United States?

30 A. Yes, but my point is, it depends on the



1
2 situation and the nature of the issue. If you have a
3 general coal rate adjustment, for instance, and I have
4 been in many studies like that, where the problem was
5 how to relate coal rates from one mining territory versus
6 another mining territory to a common market, You can
7 take many liberties with it because the issue is not,
8 is it compensatory or not compensatory; the issue is
9 what is a fair relationship of one rate to another and
10 what light can cost throw on that. That makes a
11 completely different environment on this sort of cost
12 question.

13 COMMISSIONER ANSCOMB: Is that your just
14 and reasonable definition?

15 THE WITNESS: It is one of the elements
16 of just and reasonable you have relative to another
17 movement of that commodity or a related commodity.

18 COMMISSIONER MANN: Mr. Saunders, I want
19 to get this point straight; does that mean that if a
20 tribunal is to evaluate a cost study it must know the
21 purpose for which the cost study was made.

22 A. Absolutely. Some things that are
23 perfectly adequate for one question cannot be useful
24 for another. I think it might help Mr. Sinclair if I
25 could clarify my position on this because I really do
26 want to be helpful. I approached this in this way really
27 because when I read the railway presentation it said
28 the problem of the Canadian railway system is the
29 Crowsnest rates. I looked at it and I said, "I just
30 cannot conceive of that being the problem, I want to use



1
2 data to test whether there are other problems." The
3 whole focus on this and the orientation was to apply
4 this method to other aspects of the railway system. I
5 have just not looked at this.

6 MR. SINCLAIR: Q. But you did know because,
7 you have answered me before, that these rates were the
8 only rates that were outside the control of the railway
9 to adjust?

10 A. Yes, sir.

11 Q. The only rates?

12 A. Yes, sir.

13 Q. And you do not think that makes it
14 the problem when it is such a large proportion of ton
15 miles?

16 A. No, sir, because as I have said --

17 Q. Well, the railways disagree with you.

18 A. I have said in my presentation that
19 these other problems that I have described such as
20 passenger and branch line problems some of which run
21 through your grain study are bigger problems than grain
22 itself.

23 Q. We will see about that, Mr. Saunders.
24 We have your view and that is why you have answered
25 the way you have. I take it that the first step, in
26 any event, is to determine the relationship of revenues
27 and cost for this very large segment of traffic and then
28 you have to see what you are going to do about it.

29 A. I think that is a very desirable first
30 step, yes sir.



1
2 Q. Now, Mr. Saunders, in dealing with this
3 matter of costing, at page 21, paragraph 2 you state:

4 "...the analyst must be sure that there are
5 no important influences that he is omitting
6 or refinements that he is glossing over."

7 Would I be correct in saying to you that
8 what you mean in that statement, what you are expressing
9 here is that the cost analyst must take reasonable steps
10 to make certain that his work does not overlook
11 refinements that would have a significant effect on the
12 result.

13 A. That is right.

14 Q. Now, for instance, in the Southern
15 Governors' Grain Case when you did your cost study you
16 were satisfied that you were not glossing over things
17 that would have a significant effect on the result.

18 A. That is right. This way train question
19 you asked me about is a good illustration of that; when
20 you have 1000 miles of haul in the west the effect of
21 a 20 mile movement in a way train on that would not be
22 very great so I did not see that there was any problem
23 in evaluating it.

24 Q. And you were quite prepared to take
25 the average in the Southern Governors' (Grain Case and
26 you were quite prepared to take a one for one or close to a
27 one for one weighing, passenger versus their C.T.U., in
28 that case?

29 A. I had to accept the accounting records
30 as they were, I could not do anything about that on the
freight and passenger.



1
2 Q. But you did not make any qualifications
3 on that?

4 A. Well, I have done it a number of times;
5 sometimes you have to live with facts as they are and
6 work from there.

7 Q. But notwithstanding living with facts
8 as they were, as I say, you have agreed if the rate
9 proposals put forward by the people in the Southern
10 Governors' Grain case were implemented they would be non-
11 compensatory and notwithstanding that, you, as you say,
12 could not make a passenger freight separation.

13 A. That is right.

14 Q. Now, in costing knowledge of the plant,
15 of the operation of the plant, traffic, operators, is of
16 great assistance to the cost analyst in preventing him
17 from falling into error.

18 Q. It may.

19 Q. For instance, when you work
20 on cost situations in the United States the procedure is
21 for you to discuss the matter thoroughly with the
22 operating people and the various engineers in matters
23 of that kind and the general set-up to assist the analyst
24 in trying to give him some knowledge of the plant.

25 A. Yes, sir.

26 Q. Then, generally speaking, cost analysts
27 try to get over the property, go out on the ground and
28 take a look at some of the switching studies.

29 A. It depends how important it is in
30 the study; if it is an important part of the study you
would want to be on the ground at least a little bit to



1
2 know you are setting it up properly.

3 Q. Now, Mr. Saunders, as a cost analyst
4 you agree in regressions that you are concerned with the
5 statistical significance of the results of your equations
6 and you are also concerned with the meaningfulness of
7 the variables adopted to explain the expenditures.

8 A. That is right.

9 Q. And in approaching statistical
10 evaluations you must keep in mind some of the theorems
11 and truisms that are necessary to be taken into account
12 in these statistical evaluations?

13 A. I do not know what you mean by that.

14 Q. Let me see if I can give you an example;
15 if there is an equation that has an independent variable
16 that explains the behaviourism and the expenditures under
17 review and the independent variable is broken down into
18 some components and the components of the variable broken
19 down are introduced as independent individual variables
20 in the equation, the R^2 or the goodness of the fit will
21 improve?

22 A. I am afraid I fell off the train there.

23
24 -
25
26
27 -
28
29
30



1
2
3 Q. All right, Mr. Saunders, we will do it
4 over again. If in an equation you break down one
5 of the independent variances into components,
6 down, say into two components and introduce those
7 components separately as independent variables in
8 the equation to explain the behaviourism on the
9 expenses under review, the result will be, I suggest
10 to you, an important index of fit or, put another
11 way, to raise the value.

12 A. I don't know whether it will or not,
13 a priori.

14 Q. I suggest to you this is a truism, a
15 statistical truism, and you asked me for an example and
16 I am giving you this as an example of a statistical
17 truism which must be taken into account in valuating
18 statistical evolutions from equations.

19 A. I think if you take the right pieces,
20 the meaningful pieces of the total that you probably
21 would generally improve the fit.

22 Q. I am not saying generally; I would say
23 that ---

24 A. It has to be a reasonable breakdown;
25 let us put it that way.

26 Q. Unless you will improve the fit every
27 time, except where you have a perfect linear
28 relationship.

29 A. I never thought of it quite that way;
30 it could very well be a truism.

Q. Now, arising from the fact the effect of
the number of independent variables, the R^2 value must



1
2
3 be taken into account in your evaluation, and you
4 agree, I take it, that the present evaluating
5 statistical sequence is on guard because of this
6 statistical truism and not to rely upon goodness of
7 fit, say, in that one equation is better than another.

8 A. Well, I don't want to get technical or
9 to put it in technical language here, but I think
10 perhaps this is where I would differ with the C.P.R.
11 on the approach because I am not just interested, and
12 I submit I don't think the C.P.R. should be just
13 interested in a mere statistical fitting; I think you
14 have to ask yourself, "Does it fit and does it make
15 sense?" I don't know what I would do in a particular
16 case without studying, if I had a choice, between
17 using a technique that gave a better fit but that
18 didn't make sense from an operating point of view
19 and didn't make sense from the practical application
20 of it; I don't know just how I would handle that.
21 I just don't think it is a truism that one just
22 looks for the fit, and that is it.

23 Q. Well, Mr. Saunders, what I have put to
24 you -- and you say you disagree with the C.P.R.
25 approach -- what I put to you is this; that R^2
26 values, which we are going to look upon as extending
27 goodness of fit, are not because they have been
28 improved; they are to be taken to improve the equation
29 if the result of the improvement in the R^2 results
30 in the breaking down of one of the independent
variables into two components.

A. They may not really be an improvement, is



1
2
3 what you are saying?

4 Q. That is right.

5 A. It is true there may not be a real
6 improvement in a pure statistical sense. On the
7 other hand, if breaking it down gives you a better
8 way of explaining what is happening or of relating
9 it to the circumstances in which the traffic is
10 handled, you shouldn't be deterred from using it
11 just because it is not better. In other words, I
12 think it is a mistake to look at this as a
13 mathematical problem.

14 Q. What I am suggesting to you is this;
15 that statistics should not lead you astray, in the
16 way that you are putting it, by looking at an
17 improved R^2 , if the result of that R^2 is not a mere
18 explanatory equation, but in truth is only
19 resulting from the introduction of two interests;
20 one, independent variables, the two being components
21 of the first equation.

22 A. I think what you are saying is that it
23 may look better, but may not really be better?

24 Q. That is right.

25 A. I agree that that may be the case. Now
26 when you have that you will have to ask yourself,
27 "Shall I use it even though it is not better statistically,
28 but it is there from a practical standpoint in that
29 it explains what happens as an operating fact."

30 Q. One of the things you must immediately
do, even though you have got an improved index of
fit from the equation that you are dealing with, and



1
2
3 by breaking it down into components is to consider
4 on the breakdown whether you have some "t" values?

5 A. That is right.

6 Q. Because you can improve the R^2 or the
7 index fit by introducing independent variables into
8 an equation, and you really are destroying the
9 equation because you have introduced, for instance,
collinearity?

10 A. That is right.

11 Q. So that the statistician, after he is
12 finished looking at his R^2 and his "t" values, he
13 has got to go another step also, and that is apply
14 his knowledge as to whether the variables being used
15 are appropriate in the circumstances, and on the
16 property in question for extending the behaviorism
of the expenses, do you agree?

17 A. That is going beyond the statistic
18 mechanics?

19 Q. That is right.

20 A. I agree.

21 Q. And he must do that if he is going to
22 properly evaluate the equation?

23 A. Yes sir.

24 Q. Now, Mr. Saunders, one of your criticisms
25 of the Canadian Pacific cost study was the regression
26 equation 202, the expense group being track maintenance
expenses?

27 A. That is right.

28 Q. Now, you remember some weeks ago we had
29 Dr. Borts here and he criticized the Canadian Pacific
30



1
2
3 202 expense group, and he presented as you will recall --

4 A. No, I am afraid I will not, but go ahead.

5 Q. You haven't read his submission?

6 A. I saw it, but I haven't really studied
7 it.

8 Q. You haven't. Now, Dr. Saunders ---

9 MR. MacKIMMIE: I am not sure I even got it.

10 MR. SINCLAIR: You didn't get the transcript?

11 MR. MacKIMMIE: I don't know about the
12 transcript, but I am not sure I got the studies.

13 THE WITNESS: I think we got Memo No. 1, and
14 I went through that, but I can't say that I really
15 digested it.

16 MR. SINCLAIR, Q: You remember that Dr.
17 Borts advanced two models, and he finally finished with
18 a model which he designated as 202C as saying
19 this is the model that he thought was the model that
20 you would prefer over the C.P. model.

21 A. I know he went through something of
22 that sort, but I don't feel ---

23 Q. You don't want to discuss his model?

24 A. Well, I don't know that I don't want
25 to discuss it; I am not really familiar with it.

26 Q. You will recall in his model minimum
27 track maintenance expense was deducted from the
28 expenses to be external to the equasion; that was the
29 first step.

30 MR. FRAWLEY: Why not ask him whether he does
recall it. He has submitted he is not very familiar
with it.



1
2
3 MR. MacKIMMIE: Mr. Frawley, did you ever
4 give me Dr. Borts' study?

5 MR. FRAWLEY: I am not sure that I did.

6 MR. SINCLAIR: The witness says he has got
7 it, so I am sorry if counsel was overlooked by Mr.
8 Frawley.

9 MR. MacKIMMIE: Just settle down. We are
10 talking about what the witness knows, and if you want
11 to tell him what Borts says, go ahead and tell him.
12 Why do you have to get into ---

13 MR. SINCLAIR: I am putting my questions the
14 way I think they should be put.

15 MR. MacKIMMIE: You are trying to get the
16 witness to say, "I presume I know so and so".

17 THE CHAIRMAN: Can the witness answer?

18 MR. MacKIMMIE: I am saying to my friend that
19 if he knows how well it is worked here, if he knows
20 that Borts said this and this, we will know whether he
21 can answer any questions with respect to it.

22 MR. FRAWLEY: Or let the witness see the
23 memo. I am only referring to the futile nature of
24 my friend's cross-examination of the witness who said
25 at the very beginning that he didn't look it over too
26 carefully.

27 THE CHAIRMAN: What is the question?

28 MR. SINCLAIR: I think that would be very wise.

29 MR. MacKIMMIE: You have taken so long to
30 get to it.

MR. SINCLAIR: I am just new at this and I don't



1
2
3 know as much about it as you do, so you will have to
4 bear with me. You understand these things, and I
5 bow to your greater knowledge and ability. You be
6 kind to me and let me go on in my stumbling and very
7 inept way and see if I can assist the Commission.

8 MR. MacKIMMIE: On that basis, yes!

9 MR. SINCLAIR, Q: I don't really understand
10 this, Mr. Saunders, nearly as well as Mr. MacKimmie
11 does, so you will have to bear with me for just a
12 moment, but in 202, the track maintenance expense
13 group, Dr. Borts, external to the equasion, developed
14 the matter of track expense; do you recollect that?

15 A. I know he did, but I don't recall the
16 procedure.

17 Q. The figure was something over \$700;
18 it was \$726 or \$724.

19 A. Is there a question?

20 Q. Do you recall that figure?

21 A. I don't actually recall it, but I am
22 sure that I read it.

23 Q. Then he went on and instead of using it
24 as an explanatory variable, he used ---

25 MR. FRAWLEY: The witness doesn't know whether
26 he did or not. Surely my friend knows that you should
27 put it to him, "Assuming he went on and did this,
28 and assuming he went on and did the other."

29 MR. SINCLAIR: Well, Mr. Chairman, again I
30 guess I don't understand.

MR. MacKIMMIE: I think if you had put it
to him ---



1
2
3 MR. SINCLAIR: Granted; I found even I didn't
4 understand it by such an authority as my friends.

5 MR. MacKIMMIE: Thank you.

6 MR. SINCLAIR: It is nice to know that he is
7 capable of determining these matters. You have just
8 made a determination, Mr. MacKimmie.

9 Q. Mr. Saunders, do you recollect the use
10 by Dr. Borts of train miles instead of gross ton-miles
11 in the explanatory variable?

12 A. You are getting me pretty far down the
13 road from where I was. I am really sure I saw it,
14 but it wasn't something which I felt any responsibility
15 for and I had other things to do, and I just don't
16 recall it.

17 Q. Over the recess which we have coming
18 up shortly -- and I suggest on account of the heat
19 that is in this room that we take it now, because it
20 has been over 80 here all day -- that you take a
21 look at Dr. Borts' model 202C, and I am asking you
22 a question here.

23 MR. MacKIMMIE: I will take objection to that.
24 This witness is surely called here to defend and to
25 be asked questions on the matters on which he speaks
26 and the exhibits which he has studied, and I think
27 for Mr. Sinclair to ask Mr. Saunders to take overnight
28 and work on someone else's -- I gather that Dr. Borts
29 couldn't have been here. He is the man to answer that
30 question, not Mr. Saunders, and I submit that it is
most unfair to ask him to criticize Dr. Borts' work,
and I don't think we should be asked to do that, and



1
2
3 I am taking very serious objection to being told that
4 we have to do that. Mr. Borts surely is before this
5 Commission, and it is the Commission's chore to weigh
6 and give whatever weight they want to Mr. Saunders
7 and Dr. Borts and Mr. Banks and Dr. Edwards and Mr.
8 Stenason, but to put them one against the other --
9 it is unfair to ask us to do it.

10 THE CHAIRMAN: If Mr. Sinclair asks the
11 witness to make a comment on what Dr. Borts said, and
12 the witness cannot; that ends it.

13 MR. SINCLAIR: What the witness has done,
14 Mr. Chairman, is that he says in effect in his appraisal
15 here that the Canadian Pacific model, for the
16 explanation of track maintenance expense, is not
17 correct and that you should do other things to it; you
18 should introduce other variables to it, and with all
19 due respect to the witness he went through to use my
20 friend's expression -- pardon me, the witness'
21 expression on another matter, and there were a number
22 of exercises with numbers and he discussed them in
23 his precis. Now, if he was looking at the behaviourism
24 of the 202 group of track maintenance and expenses
25 as we defined it, I suggest that one of the things he
26 should have looked at was 202C as advanced by Dr.
27 Borts which is available to him, and I think that it
28 is only proper and quite right for me to say to him,
29 "Here is what Dr. Borts did on this. Did you do this?
30 Did you do that? Why didn't you do this? Why didn't
you do that? Do you agree with this? Do you agree
with that? Do you think that yours is an improvement



1
2
3 over that, for this reason and for that reason?"
4 Surely I can test this witness' knowledge of his
5 equasions by using regression equations advanced by
6 other statisticians, and not just out of the book,
7 but read in these proceedings, and that was all I was
8 intending to do.

9 MR. MacKIMMIE: Surely, sir, surely to
10 Heaven my friend is not serious when he is saying,
11 "I am entitled to tell witness A to come and look at
12 witness B's work, and have him come back and I want
13 to ask him why did B do this and that". Surely Saunders
14 is responsible for every criticism which he has
15 made in these studies of the C.P.R., but not on what
16 Borts has done. My friend can come with a dozen things
17 from all over the country, but it is entirely improper
18 for him to suggest he read these studies.

19 MR. SINCLAIR: I wonder if my friend knows
20 exactly what the effect of the criticism of this witness
21 is at 202. Maybe he would explain that so I can
22 understand his objection to my objection.

23 MR. MacKIMMIE: I don't intend to educate
24 you at all in what we are doing. Mr. Saunders is here
25 and he has told you what he finds wrong. Ask him
26 what he doesn't like about it, but don't ask Mr.
27 Saunders what Dr. Borts does not like. You had
28 Dr. Borts here and you should have had sense enough
29 to ask him.

30 MR. SINCLAIR: Well, whether I had sense
enough or not, I should say to my learned friend that
my position is before the Commission and I wish to



1
2
3 ask the witness the kind of questions I have asked.

4 THE CHAIRMAN: Well, you suggested we
5 adjourn, and it is now almost 4:00 o'clock. Tomorrow
6 the Board of Transport Commissioners is sitting here
7 and as there are other people using the hotel, we
8 will meet in the Assembly Hall at 90 Parent Street
9 at 10:00 o'clock.

10 ---Adjournment.
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

Hon. C. P. McTavish
Minister of Transport

ROYAL COMMISSION

ON

TRANSPORTATION

HEARINGS

HELD AT

OTTAWA

VOLUME No.:

128

DATE:

10 JAN 1961

OFFICIAL REPORTERS

ANGUS, STONEHOUSE & CO./LTD.

372 BAY STREET

TORONTO

EM. 4-7308; MAND. 633; EM. 4-5865



ANGUS. STONEHOUSE & CO. LTD.
TORONTO. ONTARIO

I N D E X

Page No.

SAUNDERS, W.B.

Cross-examination

By Mr. Sinclair (resumed)

22033

NO EXHIBITS IN THIS VOLUME

E R R A T A

VOLUME 127

Page 21099:

Add at foot of page -

"Page No. 22000 follows"



ROYAL COMMISSION ON TRANSPORTATION

Proceedings of hearings held
in the Assembly Hall, 90 Parent
Street, Ottawa, Ontario, on the
10th day of January, 1961.

---O---

COMMISSION

Mr. M.A. MacPherson	Chairman
Mr. H. Anscomb	Member
Mr. A.H. Balch	Member
Mr. R. Gobeil	Member
Mr. H.A. Mann	Member
Mr. A. Platt	Member

COMMISSION COUNSEL

Mr. A.G. Cooper, Q.C.
Mr. G.S. Cumming

Mr. F.W. Anderson	Secretary
Major N. Lafrance	Assistant Secretary

---O---



Ottawa, Ontario,
Monday, January 10, 1961

--- On commencing at 10:00 a.m.

--- CROSS-EXAMINATION BY MR. SINCLAIR, resumed:

Q. Mr. Saunders, last evening we were discussing before adjournment the regression equation by which you trace the behaviourism of track maintenance expenses?

A. Yes, sir.

Q. In developing the behaviourism of track maintenance expense, in your opinion it should the minimum cost per mile of track be developed extraneous to the equation?

A. Should it be developed ---

Q. Extraneous to the equation.

A. I do not know about the "should" part of it, but it could be, I suppose. I did not do it that way.

Q. You agree that if you develop the minimum track maintenance cost extraneous to the equation and you are wrong in your extraneous development, this distorts the whole equation, and if the figure you have used is wrong the equation must fail?

A. Well, it would certainly distort the equation. What would happen to the equation after that, I do not know, without knowing a little bit more about how relevant it was, and so forth.

Q. Well, any factor that distorts an equation and interferes with the inter-action of the co-efficient will give you the wrong answer and therefore



1
2
3 the equation fails and should be discarded?

4 A. Well, it would give you a wrong answer,
5 I am sure, if you had had a wrong input or this
6 extraneous factor that you are describing, but how
7 wrong it would be is another question. I just don't
8 know, until we see the effects of whatever the wrong
9 number might be.

10 Q. Let us take, for the sake of a number,
11 that the difference is as much as \$400.00 per mile
12 of track?

13 A. Yes. I think that would have a
14 substantial effect on the equation.

15 Q. Now, as an explanatory variable for
16 road maintenance expense, you agree that train miles
17 is not a realistic output unit to measure behaviourism
18 of track maintenance expense?

19 A. You have a question mark on the end
20 of that?

21 Q. Yes?

22 A. Well, certainly train miles is not
23 something I would go to offhand; it would not occur
24 to me to look at train miles as a way of explaining
25 track maintenance, but there may be something that
26 underlies that that would be worth looking at.

27 Q. Well, for example, if you take train
28 miles you would be giving the same weight to the
29 track maintenance expense whether you had a caboose,
30 hopper, without caboose, or a hundred mile train?

A. That is true.

Q. Or if you had a four unit diesel consist



1
2
3 as a power unit, or if you had a one unit diesel power
4 unit?

5 A. That is right. That would be the
6 effect.

7 Q. This is a distortion, I suggest to you,
8 and its inter-action within the equation can or should
9 result in the analyst being very suspicious in
10 testing this against engineering knowledge of what
11 effect this has on track maintenance expense?

12 A. You certainly would have to be very
13 careful with it. I would not approach it that way,
14 but I could conceive of someone trying that to see if
15 it throws any light on the problem of what makes
16 maintenance behave the way it does.

17 Q. And another thing Mr. Saunders, that
18 you would, I take it, consider would be that gross
19 ton miles would be a factor that you would put into
20 an equation if you were looking at track maintenance
21 expense cost; this would be a major element and
22 to leave it out would be wrong?

23 A. Well, there again, this is really the
24 same question you asked before in a little different
25 form.

26 As far as I am concerned, I see gross ton
27 miles as a very important factor to look at and to
28 consider and to evaluate. But it is possible to
29 approach this from another point of view and see
30 whether or not some other factor other than gross
ton miles may offer some explanation which in turn
may be very helpful in then correcting or improving



1
2
3 or -modifying the gross ton miles. It might be that
4 one might note that gross ton miles alone are not
5 enough of an explanation.

6 Q. I suggest to you that it is clear that
7 if you put in train miles and gross ton miles that
8 you get collinearity and you should immediately reject
9 the equation. I mean, it does not take a detailed
10 knowledge of railway operations to know that these
11 two things would have interdependence and bring about
12 collinearity immediately? Do you agree?

13 A. Well, there certainly would be that
14 problem -- I do not doubt that for a moment. But I
15 do not look at this whole thing as a clean-cut
16 simple arithmetic exercise. I see this as something
17 extremely important and highly complex and an area
18 in which we are really at the threshold of discovery
19 rather than having long since past it. Our whole
20 approach to it was with the idea of trying to take
21 the step and ask a series of logical questions: "How
22 about this?", and "How about that?", and "What things
23 can we look for in trying to explain this"; without
24 at the end feeling we had all the answers. And I
25 think this other approach, too, might offer some
26 promise of gaining some certainty.

27 Q. Are you serious in the application of
28 multiple regression that you are at a threshold? You
29 have been out of school for quite a while; I think
30 you must have studied it when you were in school?

A. I did; I think that is an unfair
statement of what I said. I said that with respect



1
2
3 to track maintenance -- and if I have to say it
4 again -- with respect to track maintenance, I do not
5 feel we have passed the answered point. We are at
6 the beginning of finding the answer.

7 Q. Would you rather take the average and
8 apply average percent of variability as developed by
9 the ICC cost finding procedures, or would you rather
10 do tracing through the application of multiple
11 regression to track maintenance expense?

12 A. I would much prefer to use the technique
13 of regression. There is no question about that.

14 All I am saying is the numbers we have been working
15 with up to now in the field of track maintenance, using
16 regression, are in my opinion not the last word.

17 Q. Oh, I see. What you are saying is
18 that further refinement may be possible?

19 A. I think further refinements are essential.

20 Q. Further refinements are essential to
21 improve it beyond what they have under the ICC; or,
22 is it already improved over what they have under the
23 ICC?

24 A. Well, I think anything that produces a
25 number other than uniform percent, which is the
26 ICC method, is an improvement -- there isn't any
27 question in my mind about that -- particularly in
28 respect to this track maintenance feature. Merely
29 because a technique is good as a technique -- and
30 I am certainly in favour of multiple regression --
I think I said so in my preliminary assessment and
certainly in volume II -- while this technique is an



1
2
3 improvement does not mean just because it is being
4 used therefore we must all bow down and take an
5 oath of allegiance.

6 Q. Of course, Mr. Saunders, we have had
7 examples of the use of multiple regression analysis
8 in the petroleum industry on a very highly developed
9 basis for, what, twenty-five years, on joint cost
analysis in refineries?

10 A. Well, it has been used there and I guess
11 in other industries as well, and in engineering --
12 various aspects of engineering, and so forth.
13 There is no question about it.

14 Q. And indeed multiple regression analysis
has been used in forestry?

15 A. I am just talking about track maintenance
16 on railroads.

17 Q. What I am going to ask is do you think
18 the joint-cost problem of track maintenance is any
19 more complex or difficult than these other
20 applications to industry that have been going on for
some time?

21 A. Well, I do not think it has anything to
22 do with how other industries solve their problems.
23 I am saying it is a technique which is very useful,
24 very desirable. I am all in favour of it. But
25 I have seen certain results offered by the C.P.R.,
26 and I am saying to you that those results, I feel,
27 are not adequate. That does not mean I oppose
28 multiple regression; it just means these results are
not adequate.



1
2
3 Q. The reason you say they are not adequate
4 is because you have judged in your mind that the
5 explanatory variables used by the Canadian Pacific
6 in their regression analysis are not refined enough
7 to explain the variability factors that can be
8 traced and explained by the introduction of other
independent variables; is that correct?

9 A. Well, that is part of it. I also have
10 a little healthy caution about just numbers as
11 numbers. We have had a perfect illustration of that
12 in this regression field. We struggled with the
13 data on the C.P.R., and we did not like some of the
14 numbers. I couldn't tell you what was wrong with
15 them, but we were getting answers that tended to
16 defy what I felt was a rule of reason, and we have
17 now found there was some inadequate data in the
C.P.R.'s accounts. Now, that sort of ---

18 Q. May I stop you for just a minute?

19 A. All right, sir.

20 Q. Have you got reference to this account
21 here -- the track maintenance expense?

22 A. Yes.

23 Q. And have you reference to what is known
24 in the railway as single division extraordinary
maintenance in a year?

25 A. Yes, sir.

26 Q. Are you going to suggest to this
27 Commission that there is not extraordinary maintenance
28 appearing in various divisions over a system as wide
29 as the Canadian Pacific at every year, or within
30



1
2
3 a group of three years?

4 A. I do not suggest that at all. I am
5 sure that happens, and it tends to obscure the value
6 of this technique, which might otherwise be a very
7 ideal way of solving the problems.

8 Q. How does it tend to cloud it? If
9 it is coming up every year, are you going to
10 say you should translate it into an overhead to be
11 put across the whole of the divisions? Is that your
12 view?

13 A. Well, Mr. Sinclair, I think you have to
14 go back to work out "Why are we here; what is the
15 question?", and I say to you that the purpose of the
16 regression analysis on track maintenance is to
17 find out the variable cost, and the variable cost
18 is substantially affected in multiple regression
19 analysis by having some wrong numbers or some numbers
20 that are distorted because they are abnormal, let
21 us say, in the accounts of one division -- the
22 Vancouver division -- makes a substantial difference
23 in the variable cost that is produced by your
24 own regression equation.

25 Q. I suggest to you, Mr. Saunders, that
26 that is open to considerable question, and it arises
27 from the fact that you do not recognize, as some
28 people in this room who have been in the question
29 of maintenance on the Canadian Pacific in general
30 revenue cases I am sure will recognize, that
abnormal maintenance, so-called arising from wash-
outs, bridges, or things of that nature does occur



1
2
3 year by year, if you take it on a reasonable term, and
4 that by having it in one division one year and
5 another division the other year does not require it
6 to be taken out. It is only because somebody doesn't
7 recognize the principle of regarding abnormal
8 maintenance throughout the system that he takes it out,
9 I suggest to you?

10 A. No, sir, I am afraid that this is the
11 point of essential disagreement, not in terms of the
12 fact -- obviously, the fact is that abnormal
13 maintenance occurs and it occurs in different
14 places, and at different times -- a wreck in one
15 place, a washout in another -- but what we are asking
16 about is what is variable cost. At least, our
17 first question is that, in connection with track
18 maintenance: what is variable cost; what is the
19 cost which is due to the passage of gross ton miles,
20 if you will, over a piece of track; the wear of the
21 wheel on the rail. That is the question -- at
22 least, that is one very important question, and that
23 is a question which Mr. Stenason set out to try
24 to find an answer to, and he arrived at a certain figure,
25 and I am sure that figure turned out to be
26 substantially different, and properly so, if you exclude
27 this abnormal maintenance from one single division.

28 Q. But I am saying this, that if you do
29 that and do not take it as an overhead and put it
30 back into the cost, then you have not found the cost
of moving the steady traffic and, in the final
results, you come out to something which is not much



1
2
3 different from what you had before?

4 A. No, sir. I'm afraid --

5 Q. You disagree?

6 A. I think if you want to get variable
7 cost -- you said the cost of moving the traffic,
8 and you are going to get maybe into size-related
9 concepts, and so on -- but I am talking about the
10 variable cost, and I think you would get an
11 equation of variable cost if you do not include
12 the factor of washouts, for example, as an
13 element that is going to raise the variable cost,
14 because washouts are not a function of the passage
15 of the wheel on the rail.

16 Q. But you are trying to get the cost of
17 moving a commodity, and if you take it out of the
18 variability then you are going to increase the
19 term -- or, are you going to exclude it from the
20 independent variable and treat it as a variable, and
21 pass it over the track? What are you going to do?

22 A. That would depend on what the item was.

23 Q. I am taking this question of abnormal
24 maintenance and I am asking what you as a cost
25 analyst are going to do? Would you treat it as
26 an overhead?

27 A. Yes, I think -- I am not sure what
28 place in the equation I would put it in, but it
29 would certainly have some characteristics on
30 constant or possibly even another expression. I don't
just know where I would put it.

Q. You would not put it in the constant



1
2
3 term? You are not suggesting these expenses are
4 constant and have no relation over time to the traffic
5 moving; are you?

6 A. You talk about a washout. I would say
7 it is not a function of the traffic that is moving.
8 By definition, I think it has something to do with
9 the terrain and the climate.

10 Q. Let us take it that it is caused by a
11 bridge on account of a movement factor building up
12 and making stresses that then weakened the structure?
13 What are you going to do now? I have got you
14 into variability now.

15 A. Mr. Sinclair, I suggest to you that while
16 I would agree that this is -- to the extent that a
17 bridge replacement is due to wear and tear -- there
18 is a certain amount of that due to wear and tear and
19 a certain amount due to other factors, but to the
20 extent you could determine this was due to wear and
21 tear you would try to put it back into the
22 variable portion of the equation. But I want to
23 point out to you that in John Stenason's regression
24 there really is no room to do anything like that,
25 because all he had was three years of data, and
26 I cannot conceive of the fact that in that three
27 years of data somehow they were offsetting errors
28 or offsetting biases in the different divisions
29 which would somehow work out and make this the
30 right regression.



1
2 Q. Well, you are not going to suggest
3 they are errors; you mean by that term compensating
4 factors and expenditures.

5 A. In some other division that would make
6 this come out.

7 Q. The point is, if there is a factor such
8 as this is one division and you recognize it is recurring
9 and having some factor of traffic volume recurring and
10 having some factor of traffic in it then the cost analyst
11 should not put it in the constant and say it does not
12 vary with the traffic.

13 A. I agree if you know what caused it you
14 ought to put it in the proper slot.

15 Q. What you are saying is unless you are
16 satisfied you know what caused it you must put it in a
17 constant.

18 A. No, I do not say you must. You have to
19 know what it is.

20 Q. If you cannot trace it it then becomes
21 part of the constant, is that right? I do not think we
22 are in disagreement on this.

23 A. If you cannot trace it -- I am not
24 concerned whether you can trace it in an accounting sense,
25 I am trying to get at the purpose of the expenditure.

26 Q. If you cannot explain it with an
27 output unit to the satisfaction of the analyst then you
28 must treat it as a constant even though you know it does
29 have a variable factor in it. That is the nature of the
30 regression analysis, is that not so?



1
2 A. Well, this is something that goes a
3 little beyond regression. You are trying to find out
4 what to do with some factors which you are going to
5 superimpose on the figures.

6 Q. I suggest to you it does not go beyond
7 regression at all because the cost analyst to approach
8 this situation cannot do it without having thought through
9 what he is going to do with the various expenditures and
10 satisfy himself with tests and knowledge what he is going
11 to do.

12 A. That is right.

13 Q. So, my question to you is if you cannot
14 trace it in the sense you cannot satisfy yourself as to
15 the explanatory unit even though it has some degree of
16 traffic, you treat it as part of the constant.

17 A. I say you do the best you can with it
18 but I certainly do not think it is part of the variable.

19 Q. And even though it has a variable
20 factor in it.

21 A. It depends on the particular item.

22 Q. That is what I am saying, I am asking
23 you to assume with me that there is a variable factor
24 in the expense in question that you cannot choose the
25 variable that will explain the behaviourism of the item
26 under review and a cost analyst in those situations must
27 necessarily, although he knows that it is in part
28 variable, will say he must treat the whole part of the
29 expenditure as cost or fit.

30 A. Well, I just do not like to put a



1
2 straight jacket on the cost analyst.

3 Q. You do not have to put a straight
4 jacket on any cost analyst, the factors speak to him.

5 A. Yes, that is the whole point.

6 Q. And he has to test that against the
7 knowledge of the operation of the engineer's appraisal?

8 A. That is right.

9 Q. You are saying the Canadian Pacific
10 did not carry their analysis far enough and at page 20
11 you mentioned this morning, you say:

12 "There were refinements of the C.P.R. data
13 which would have improved the regression
14 and contributed more detailed information.
15 Example of these are the breakdown of
16 track miles into main line, branch line
17 and switching components, and the separate
18 use of yard and train locomotive switching
19 miles. There was at least one highly
20 relevant influence on track expense, namely,
21 the extent of gradient and curvature."

22 Finally, you mention the passenger freight
23 gross ton mile weighting factor. Those are the criticisms
24 that you have in the analysis, I take it.

25 A. That is correct, sir.

26 Q. Now, you are not appearing here as
27 an expert on operations, traffic balance¹ and topography
28 of the Canadian Pacific system and their economic
29 significance, are you?

30 A. To the extent I have indicated, yes sir,



1
2 I am.

3 Q. You are?

4 A. To the extent I have indicated in
5 this testimony.

6 Q. So that you are saying, for instance,
7 that you know that the way the C.P.R. operates that
8 for minimum track expenditures there is a data of some
9 significant degree between the component main line track
10 and branch line track. That is what you are saying.
11 The way the Canadian Pacific, for instance, operates its
12 railway and maintains it, that there is a significant
13 difference between minimum maintenance between main line
14 tracks and branch line track, is that your testimony
15 to this Commission.

16 A. Yes, sir.

17 Q. Exclusive of traffic volume on
18 Canadian Pacific and minimum maintenance exclusive of
19 traffic volume, that is an operation in safety factor,
20 I suggest to you and exclusive of any effect of traffic
21 on it you are saying that Canadian Pacific has a
22 different minimum cost of maintenance per mile.

23 A. That is a little different.

24 Q. Exactly the same except I have
25 qualified it and spelled it out.

26 A. That is a little different.

27 Q. We shall see when the record comes
28 out.

29 MR. MacKIMMIE: If he understood it as a
30 different question.



1

2

MR. SINCLAIR: If he did.

3

4

A. Did you have traffic volume in the first question.

5

Q. I had excluded.

6

A. In the first question?

7

Q. Yes, once I excluded traffic.

8

9

A. Would you mind if I have the question read back?

10

11

12

13

14

15

16

THE REPORTER: "The way the Canadian Pacific, for instance, operates its railway and maintains it, that there is a significant difference between minimum maintenance between main line track and branch line track, is that your testimony to this Commission?

17

A. Yes, sir."

18

A. Are you saying that is the same?

19

Q. Yes.

20

21

A. I am saying the second one has nothing to do with --

22

23

Q. Minimum maintenance is exclusive of traffic volume.

24

A. You did not ask the question that way.

25

26

27

Q. Do you think minimum track maintenance expenditure includes an equation of traffic volume in it, do you really?

28

29

A. Well, I was not taking the question in that narrow context.

30

Q. We were discussing minimum maintenance



1
2 all morning \$700.00, \$400.00.

3 A. You say the way the C.P.R. operates,
4 the way it does its engineering work, that is what I
5 was addressing my mind to.

6 Q. We were at cross purposes. Let me put
7 it all over again and see.

8 A. I did not get any regression question
9 the way you put it in terms of C.P. operation.

10 Q. What you are looking at is the
11 measurement of minimum track of maintenance, that is
12 maintenance expense exclusive of expenses related to
13 traffic and I am asking you whether you are of the view
14 that the Canadian Pacific the way it operates its
15 maintenance standard and practices has a different
16 minimum maintenance for branch line track than main
17 line track.

18 A. Now, on that point I have to give you
19 a little different answer; there is the difference in the
20 standard of maintenance on main lines and branch lines.

21 Q. Let us try to direct it right to the
22 question I have asked you. I am saying exclusive of
23 traffic volume -- let us be clear --

24 MR. MacKIMMIE: I think the witness should
25 be allowed to give his own answers and my friend can
26 explore it afterwards but he is not going to answer the
27 questions the way Mr. Sinclair wishes him to.

28 THE CHAIRMAN: He is entitled to answer.

29 MR. SINCLAIR: I am not trying to stop him
30 from answering.



1
2 MR. MacKIMMIE: You are getting along
3 pretty well at it.

4 THE WITNESS: A. Well, I was going to say
5 that there is a difference in standard maintenance on
6 the main line and branch lines as a fact; it is a fact.
7 The question then is is there within that total a
8 difference that is at the minimum level, so to speak,
9 of traffic and on that point you do not have a fact. On
10 that point we have to go to regression and what we have
11 done was try to answer that question by separating the
12 figures to see if there was a difference.

13 Q. I suggest to you another way you could
14 come to it is by talking to the engineers.

15 A. Well, I am afraid if we talk to the
16 engineers we won't get factual data, we will get his
17 impressions and will not get factual data because he
18 does not know what the cost is for minimum maintenance
19 of main lines irrespective of the effective traffic;
20 he just does not know that.

21 Q. But he does know this, that irrespective
22 of traffic he has certain expenditures, items that have
23 to be spent and he therefore is experienced in handling
24 these accounts and in knowing the way he is operating
25 he can work out a figure that shows him what he has
26 worked to as a control figure, as minimum maintenance
27 expenditures. Above that he has traffic volume to
28 consider. You do not agree with this?

29 A. I do not think he approaches it that
30 way. I think an engineer on a railroad operates in terms



1
2 of his total operation, his total traffic picture, total
3 budget and things of that sort. I do not think it occurs
4 to him in the normal course of business in the engineering
5 department to say "what is the minimum track maintenance
6 of main line?" it just does not come up.

7 Q. I suggest to you it is on a figure
8 overall all lines?

9 A. Yes.

10 Q. And in his approach to the business he
11 puts on top of that the effects of traffic volume.

12 A. You are telling me something that is
13 news to me, I have never seen a railway that did it.

14 Q. How would you? Have you worked with
15 railroad engineers and dealt with general revenue cases
16 and matters of that kind in estimating maintenance?

17 A. Well, I do not know how many hours
18 I have put into this problem but thousands of hours
19 have gone into the question of what is the track
20 maintenance about. I have sat in committee meetings
21 with some engineers of the largest railroads in the
22 United States to try to find out a way of answering this
23 very question. I can tell you these engineers are very
24 competent and some with a sense of adjustment as well
25 as engineering do not know how to get at this problem
26 and did not in the normal course of their business worry
27 about this observation you are making.

28 Q. Do you know any railroad in North
29 America that has had the advantage of having fifteen
30 years of its accounts scrutinized by distinguished counsel,



1
2 accountants and others of that kind in the maintenance
3 field and to have been forced by circumstances to
4 analyze them and have, through these, changed the
5 history of maintenance expenditures in general revenue
6 cases in Canada.

7 A. Yes, generally, and I think you have
8 made great strides in your accounting system here and I
9 am all in favour of approving the accounts and normalizing
10 maintenance expenditures. But, I submit to you that I
11 have not seen any sign of it and I have spent some time
12 with the engineering department of the Canadian Pacific
13 when we first started on this. Perhaps I was unfortunately
14 misled in the nature of our discussion but I tried very,
15 very hard at the very beginning when I first came into
16 this to get at some facts on maintenance. I said to the
17 engineering department, "do you have any records on the
18 work done, any physical indication of the work done having
19 to do with cubic pounds of balance or things of that
20 nature broken down by division so we can test it out to
21 money figures?" I could not get them.

22 Q. Well, you do not need to have records
23 to that degree, I suggest to you, if you have the
24 experience to tell you within a reasonable basis where
25 you can go. My suggestion to you is that the difficulty
26 with people like yourself, and they work for Canadian
27 Pacific too, is that they pay too much attention to
28 having a lot of data and statistics and in using these
29 as bench marks against the knowledge that comes with
30 experience.



1
2 A. I believe you have to use both, there
3 is no question about that. I want to be very clear about
4 the way this is left; I am saying that to my knowledge
5 and from my discussions with the engineering department
6 of the Canadian Pacific there is no separate fixed
7 constant cost treatment or minimum maintenance cost per
8 mile that is used by the Canadian Pacific engineering
9 department. Now, I do not deny for one minute -- we have
10 done it on other railroads -- I do not deny that the
11 engineering department can sit down and say "what is the
12 minimum amount of money we would spend if we did not have
13 any traffic on the main line" Of course, they can do
14 that.

15 Q. I suggest to you that if I was asked
16 to tell you what would be the minimum maintenance cost
17 per mile of line, that is exclusive of traffic volume,
18 that any experienced engineer that has been close to his
19 property can give you a figure that is meaningful and
20 based on a substantial amount of knowledge and in doing
21 so he does not have to have all this data about cubic
22 yards of ballast and that kind of thing.

23 A. He could give you an estimate but he
24 is not doing that in the ordinary course of business;
25 he would be able to sit down and do it as a theoretical
26 exercise but he does not do it in his daily work.

27 Q. Are you one of those people who believe
28 that you can check out minimum maintenance cost by looking
29 at abandonment cases?

30 A. I think it throws some light on what



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

happens.

Q. I suggest to you it is completely irrelevant because all that is doing is a deliberate attempt to postpone maintenance and cut back into the actual track and with the deferred maintenance it is more expensive to pick up the cost of what you have done.

A. There is no question about that, I do not think we disagree on that. However, on the other hand and again fact has to govern, there are other cases where a railroad has been spending money right up to the last moment then they decide they are going to get rid of this line and the engineering department is not always privy to the top management decisions. We have seen cases like that.

Q. We have seen cases like that?

A. I have.

Q. On Canadian Pacific?

A. No sir, I am talking about abandonment cases in general. It just happens the railway will go along and last year they spent \$5,000 on a little stretch of line and the next year they have to file applications for abandonment and they feel a little silly about it but it all solves developing the safety maintenance cost of that line for these last years.

Q. And looking at minimum maintenance costs you have not looked at maintenance tied in to line abandonment cases?

A. You always put those things in that way but it is impossible for me to give a yes or no



1
2 answer. You say you must not look at abandonment cases
3 and I would not say "must not look," I would say of course
4 you ought to look to have an idea what is actually
5 happening. Again, how much weight do you give to that
6 is a separate question but you will not even let anybody
7 look at it.

8 Q. I suggest to you that by taking figures
9 out of abandonment cases that you will substantially
10 understate track maintenance expenses unless you are
11 prepared to use your judgment and plus figures for amounts
12 of deferred maintenance and matters of that kind; would
13 you agree with that?

14 A. Well, to the extent that that exists,
15 that is the only point. There are some cases where there
16 is bigger maintenance and other cases where there is not.

17 Q. Based on your experience what would you
18 say would be a reasonable figure on the minimum track
19 maintenance in Canadian Pacific?

20 THE CHAIRMAN: Per mile?

21 MR. SINCLAIR: Q. Per mile on the average.

22 A. Well, that is a very hard question.
23 I would like to check some of our figures.

24 Q. Well, let me see if this will help
25 you with the range of it. In the experience you have had
26 in cases in the United States where you had adopted
27 minimum track maintenance expenditures per mile, have
28 you ever had one less than \$1,000 per mile. For instance,
29 in the Trans-Continental divisions cases.

30 THE CHAIRMAN: That is system-wise.



1
2 THE WITNESS: Well, I was thinking of that.

3 You see, in the Trans-Continental divisions cases one
4 of the things we did was to make use of this abandonment
5 technique and we analyzed those abandonment dockets.

6 Now, we used other tests but in the abandonment dockets
7 you are dealing with only certain of the accounts, you
8 do not get all the accounts reflected so you have to be
9 careful to compare these with the full range that we
10 have in your C.P.R. question.

11 Q. You had to make adjustments.

12 A. Yes.

13 Q. And you would not take them without
14 those adjustments is the way I think you approached it in
15 that case.

16 My question was and in these cases have
17 you come up with a figure in any of them of \$1,000 per
18 mile on track average?

19
20 -
21
22
23
24
25
26
27 -
28
29
30



1
2
3 A. As I recall it now, we worked with a
4 figure of around \$989 a mile but that included the
5 indirect ---some of the overhead items. I think
6 I compared that with the \$700 odd in track maintenance
7 that Mr. Borts had been working with. It is not
8 exactly comparable because his figure ---

9 Q. You don't know what his figure ---

10 A. I didn't study it.

11 Q. Maybe you do. I thought you were
12 not, from our discussion yesterday, familiar with this.
13 Now I am --

14 A. Well, I am not.

15 Q. You may be more familiar than you
16 indicated

17 A. Just a minute. You got this thing down
18 to me last night and I have had a few minutes to
19 see it.

20 Q. I did?

21 A. Well, Stenason did it.

22 Q. At the request of counsel I gave you a
23 copy of the transcript.

24 MR. MacKIMMIE: Well that is what he got.
25 Let us not try to confuse it.

26 THE WITNESS: I had a few minutes to look
27 at it, and in this is the \$720 odd a mile ---

28 MR. SINCLAIR, Q: \$747 a mile.

29 A. Yes, and I recall some correspondence
30 from the Commission staff about some abandonment
dockets, and I assumed that was the relationship
you were drawing now between the Board's figure and



1
2
3 the abandonment. That, I take it, is the reason
4 for this question. I can say in that \$700 odd,
5 if it comes from the abandonment dockets, I can't
6 really compare that figure with the 989 we used
7 in the Divisions case.

8 Q. Did it come out of a regression?

9 A. It came out of some regression, and it
10 came out of an analysis of small railroads with
11 very light densities. We had possibly a hundred
12 and fifty or two hundred small railroads with very
13 light densities, and we analysed their maintenance
14 expenses and so forth. I can't really make a
15 direct comparison without a little more care because
16 one has overheads in it and the other doesn't, and
17 they are not exactly comparable.

18 Q. You were going to check minimum track
19 maintenance costs from your work that you did with
20 respect to Canadian Pacific track maintenance. I
21 would like to clean up this account and maybe we
22 could take a few minutes now.

23 --- Short recess.

24 Q. My question to you is this: what is
25 your estimate of minimum track maintenance expense
26 on Canadian Pacific?

27 A. I would say that if you take it in two
28 parts and think of it in terms of straight and level
29 track for the moment, that is on the order of \$600
30 or \$700 a mile, possibly a little more, and if you
take it for the typical track which, of course, is



1
2
3 more than -- which is not straight and level, it
4 would be ---

5 --- Short recess.
6

7 Q. Just before the break here, Mr. Saunders,
8 you said that for a straight and level track...

9 A. Yes, I was about to say ---

10 Q. ...the minimum maintenance would be
11 \$600, \$700, or a little bit more as a minimum
12 track maintenance cost, and I think you went on to
13 say that, of course, you do not have -- let me
14 ask you: you do not have as a typical division
15 on Canadian Pacific a straight, level mile of track?

16 A. That is right -- you do have a straight
17 and level mile, I think, but you don't have a whole
18 division.

19 Q. That is not the typical mile of track
20 on Canadian Pacific?

21 A. I guess that is a fair way to put it,
22 yes. So, you would take that figure and plus it
23 by an additional amount, and I would say from this
24 \$600 or \$700 pure minimum to a normal division
25 would add another \$600 or \$700, roughly. So that,
26 in the typical division you would be talking about
27 a total of \$1200, \$1300 a mile. I use the figures
28 roundly that way and emphasize "about" because I
29 don't feel these are that precise or that particularized.

30 Q. These are the general areas where you
would find \$1200, \$1300, \$1400 -- is that what you are



1
2
3 saying?

4 A. Yes, for an average division but I
5 want to come back to the point that when you think
6 about minimum maintenance I think you have to
7 distinguish that minimum maintenance is different
8 in different terrain conditions.

9 Q. Under equation 11 you get \$965 per mile
10 on main lines; \$1371 per mile on branch lines.

11 Under equation 14, 1035 for main line; 1382 for
12 branch line. Under equation 10 for the composites
13 for the Saskatoon division, you get \$1361 per mile.

14 A. I will accept the calculation, Mr.
15 Sinclair. You appreciate that is just an arithmetic
16 calculation, and on the whole I would prefer the way
17 I gave the figures to you because I appreciate when
18 we produced these figures we didn't have the actual
19 grade and curve data for these divisions, and we had
20 to use a very crude yardstick. So, I don't attach
21 literal significance to these figures. They are
22 merely illustrative of the fact there are differences.

23 Q. What I will suggest to you is that
24 on the average on Canadian Pacific from the work
25 you have done and the knowledge you have of it you
26 would accept a figure, I suggest to you, of \$1100,
27 \$1200 as a minimum track maintenance expense?

28 A. Well, with the understanding that on
29 that average you have built in the mountains and the
30 plains.

Q. That is right.

A. Well, that would be about the average.



1
2
3 Q. Now, Mr. Saunders, I want, if I could,
4 to suggest this: that you have set out between
5 pages 26 and 43 a number of regression equations
6 which, I suggest to you, are really merely working
7 papers?

8 A. I don't think of them as working
9 papers. We felt very strongly about the approach
10 to regression analysis that was taken in the C.P.R.
11 study, and to try to demonstrate how we felt this
12 ought to be approached we tried to lay out step by
13 step the thought processes, if you will, of
14 someone looking at the regression, starting with
15 the basic materials that Mr. Stenason had and then
16 asking ourselves, "What does it show and is it
17 possible there is something more here because these
18 numbers look high or low, and let us find out?".

19 So, if you will, we were taking the reader by the
20 hand and saying "Here are some of the things we
21 think important". I don't consider it a working
22 paper. I think it is an illustration of how this
23 kind of problem should be approached.

24 Q. You mean an education process?

25 A. Well, a demonstration project, maybe.

26 Q. Well, for instance, in equation 2 on
27 page 28 you made a separation in your equation of
28 passenger and freight GTM's and you evolved an
29 equation that statistically could not be accepted.
30 You had a T value on one of your coefficients of
.5, so that you would have discarded it, and you did
discard it for that reason?



1
2
3 A. That is right; that was one of the
4 reasons, certainly.

5 Q. This alone is enough to discard it
6 unless you can meet by knowledge the reason for the
7 T value not to be accepted as being insignificant?

8 A. Well, I like to look behind it and
9 not just say it is a good or bad T value, but,
10 "what is going on?", and "Why is it?", and "Does it
11 make sense or not?"

12 Q. What I am saying is that unless you
13 have knowledge to support the variable, notwithstanding
14 the effect on the T values, this would reject the
15 equation?

16 A. In the absence of any other reason for
17 keeping it you would certainly reject an equation with
18 a bad T value. I would put it this way: the
19 burden of responsibility is on the low T value
20 justifying itself.

21 Q. It is not just the low T value. It is
22 the equation as a whole, because the coefficients are
23 inter-related?

24 A. Yes.

25 Q. So, what you have got up against now
26 is a warning to you as the analyst, "Have I any
27 knowledge that is going to say to me, notwithstanding
28 what the regression says, I am going to say that this
29 knowledge requires each of these variables put in
30 the equation to explain track expense, and there is
not an equation that can use independent variables
that will meet tests of significance that I can adapt"?



1
2
3 A. Well, your question sounded very complex.

4 Q. Let me start again ---

5 A. I am not sure where it wound up, but
6 I think we probably agree with each other that you
7 have to be very careful when you meet a low T value.
8 It is a warning sign for you to say, "Can I do
9 anything about this? Do I have to abandon this
10 approach? Is there some other way that I can meet
11 that and get a good explanation of the operation and
12 still have a statistically valid result?"

13 Q. Another example -- and maybe this points
14 it up better -- is that going over to your equation
15 4 on page 29, here you have four out of six of the
16 T values that are insignificant?

17 A. That is a little strong.

18 Q. One of them is marginal -- I am sorry;
19 I can see what I have done here.

20 A. My comment on that on page 29 is that
21 the number of your variables having doubled three
22 of the T ratios are showing signs of weakness,
23 and the additional one is hopelessly low.

24 Q. So, you reject that equation?

25 A. That is right -- when you say "reject"
26 I want to be very clear about this: we are trying
27 to show a technique of analysis here and we say it
28 shows certain things and does not give us a full
29 explanation but it does tell us some things that
30 are going on on the railroad, and we go on and make
further developments.

Q. I say to you what that equation is saying



1
2
3 to you, and the numbers are speaking to you and saying,
4 "Don't use me. Stop now; don't me. Don't
5 get fooled here because I am telling you they are
6 not reliable" -- that is what that equation is
7 saying to you, as an analyst -- "Don't use me"?

8 A. Well, that is true. We didn't "use
9 you" in that sense, but we also look at it and try
10 to find out what it tells us about the relationships.

11 Q. We look at lots of things we cannot
12 have, Mr. Saunders.

13 A. And we go on and try to make progress.

14 Q. That is right.

15 A. You don't stop at equation 1.

16 Q. Maybe you should have come back to it.

17 A. I don't think so.

18 Q. Well, maybe that is where we differ.

19 A. Yes sir.

20 Q. Let us take a look at some of these
21 questions specifically. In the cases you have had in
22 the United States, like the Southern Governors' Grain
23 Case, you used a percentage variable for track
24 maintenance expense of 80%?

25 A. That is a little unkind. We used 80%
26 overall for all the expenses as a group including train
27 costs and everything else.

28 Q. I accept that, that you used it as
29 overall including track maintenance and the train
30 costs as a group -- 80% variable.

A. Well, it is more than just a casual
comment, because if you are going to go down the road
of separation and not deal with an overall percent



1
2 for all the accounts as a whole, then you get into the
3 sort of thing Mr. Stenason has done and you take 100%
4 on one item and 30% on another. In effect, a short cut
5 way of doing that, and a crude way, of course, is to take
6 all the expenses as a group and use 75 or 80 or some
7 round number. It is just a short cut approximation
8 to it. I do not want you to get the idea in your head
9 this means we used 80% on maintenance expenses as
10 variable. We used 80% on all the expenses.

11 Q. I said to you that I accepted your
12 amendment, because I do not think I put it well. What
13 you did was take an 80% overall percentage variability
14 without operating expenses, including in that overall
15 track maintenance expense?

16 A. And train crew wages?

17 Q. Yes, and a lot of other things. I
18 think you have indicated to the Commission this morning
19 that you much prefer and you think that the work done
20 by the railways here in tracing by regression
21 analysis is to be preferred over that method?

22 A. The technique of regression analysis
23 is to be preferred.

24 Q. And that the work done here by these
25 railways -- would you rather have had the type of study
26 which you did -- form "A" -- than the work that has been
27 done?

28 A. No, I think this approach is better.

29 Q. You have stated specifically in here --
30 one of the major items was that you developed what you



1
2 said was the grade and curve index, and I think you used
3 the word this morning that it was a crude index, or a
4 crude fact?

5 A. That is right.

6 Q. I suggest to you that it did not
7 measure curvature at all because of the way it was
8 constructed; it only measured gradient because of the fact
9 there is compensation in the way the track is constructed
10 between curves and grades, so what you have really got
11 is a gradient index?

12 A. I think that is substantially true as
13 a technical statement of it, but I think I would stand
14 on the idea that, generally speaking, in mountain country
15 you have both grades and curves so that roughly one can
16 say that in mountain country you are going to have more
17 of an index of grade and curve than you do in plains
18 territory.

19 Q. But what it is actually measuring is
20 grade? It is based on grade, and what you are accepting
21 it and using it for is a terrain or topography factor?

22 A. It is intended to be a general
23 topography factor, and I do not say these indexes are
24 right for either grade or curve. They are very rough.

25 Q. Or for topography for that matter?

26 A. They are a rough measure of topography.

27 Q. A crude measure -- let us stick to that
28 word?

29 A. I will accept the phrase "crude
30 measure", but I submit to you I think this is what the



1
2 C.P.R. should be doing -- developing a good measure.

3 Q. I am glad you brought that to the
4 attention of the Commission because I think we should
5 discuss it. Terrain, topography have a lot of factors
6 in them: you have mentioned two -- grades and curves.
7 Another thing would be subgrade?

8 A. You mean for cuts and fills?

9 Q. No, I am talking about the subgrade
10 of the track -- the stability of the road bed?

11 A. Yes, sir.

12 Q. And where you have a grade the chances
13 are that you have got a more stable subgrade than where
14 you do not have a grade if the cause of the grade was
15 in any sense caused by rock. Do you agree with that?

16 A. Well, I am sure there are such cases,
17 and I am sure there are cases where that is true.

18
19
20
21
22
23
24 -
25
26
27 -
28
29
30



1
2
3 A. Well, I am sure there are such cases,
4 and I am sure there are cases when that is true:
5 you will have a perfectly firm roadbed in level
6 country.

7 Q. Have you ever travelled across the main
8 line of the Canadian Pacific in western Canada, say,
9 let us take it from Fort William to Calgary?

10 A. I think I have only been on a sleeper
11 and I cannot give you much help on that.

12 Q. Well, you have not a knowledge of the
13 terrain of western Canada from riding on the railroad?

14 A. Not from riding on it, no.

15 Q. Have you got a knowledge of it from
16 flying over it?

17 A. Oh, yes.

18 Q. You get a kind of a hazy view of it;
19 don't you?

20 A. Depends how high up you are.

21 Q. Well, I do not know -- they fly about
22 20,000 to 35,000 in Canada in recent years. Have
23 you been lower than that, except when you were
24 landing?

25 A. Well, I think so, but I do not know
26 whether that helps any. Some days it is clear;
27 some days it is not.

28 Q. Even from 2,000 feet, it is pretty hard
29 to consider whether you are going over a matter
30 that is firm for roadbed purposes, isn't it?

A. That is true. You cannot tell.

Q. Yesterday I mentioned some property



1
2
3 situations east of Winnipeg -- bogs. Do you know
4 anything about that about part of the country?

5 A. Not in any detail. I have heard about
6 the problems of muskeg, and I have heard about all
7 kinds of maintenance problems.

8 Q. These are topography matters?

9 A. Yes.

10 Q. And, depending upon the number of
11 turnouts you have for sidings, this even in level
12 country can have curvature influences introduced into
13 the track?

14 A. Yes, sir.

15 Q. And where, for instance, you may have
16 a different type of terrain that is distinct in this
17 manner between rocky mountainous terrain and flat
18 terrain -- in the flat, ideally you can well have
19 substantially more culverts; you would agree with
20 this?

21 A. You could. I don't know -- you are
22 asking a very broadly hypothetical question. You
23 could. I don't know what the facts are.

24 Q. Have you ever taken a look at -- let
25 me put it this way. Have you ever had the
26 opportunity to ride over the Canadian Pacific from,
27 Moose Jaw, oh, down through Assinboia, Shaunaville,
28 Saskatchewan?

29 A. Yes, sir.

30 Q. Is it your appreciation of Canadian
topography that Saskatchewan is flat, Mr. Saunders?

A. Well --



1
2
3 MR. MacKIMMIE: The whole province, or
4 any particular part of it, or where the railway
5 goes, Mr. Sinclair?

6 MR. SINCLAIR, Q: Where the Canadian
7 Pacific operate?

8 A. I would say relatively the line of the
9 Canadian Pacific is relatively flat.

10 Q. And had it occurred to you that maybe
11 the reason -- you are looking at the tonnage
12 rating chart, I take it, from the document you are
13 looking at?

14 A. Yes, sir.

15 Q. -- that the reason for that is that
16 they may have made numerous fills to get across
17 gulleys and have substantial structures to take
18 them across to maintain a relatively flat terrain?

19 A. That is possible.

20 All of this in a sense, if you will permit
21 me, is all very true and very important and good
22 to know about. But the ultimate question is: what
23 does it have to do with the end result of track
24 maintenance expense on the Canadian Pacific. All we
25 said is you do not make any allowance for it, and
26 we did, and when we did we got a better fit.

27 Q. If on one division, Mr. Saunders, it
28 has more curvature, it can have less culverts --
29 you have admitted this possibility -- and we have
30 now talked about a grade, and when you have a better
grade you can have a better subgrade, and we have
talked about the bog. I am going to say this to



1
2
3 you; I would like to ask you this question.
4 If you adopt one element of expense related to
5 topography and introduce that into the equation, and
6 you do not give weight to compensating factors,
7 you can well introduce a distortion, and for this
8 reason seizing on one element of topography can give
9 you what appears to be an improvement but is in
fact a disadvantage.

10 A. Well, I think the end result is the only
11 determinant of you have of it, and if the end result
12 is you get a better fit, then I would conclude,
13 in the absence of anything else, that these other
14 points were of minor significance in the total
15 maintenance expense of the railroads. The turnouts
16 and so forth, while they are a real thing when you
17 have them, they just do not evidently have enough
effect to change the result.

18 Q. After our discussion of yesterday, Mr.
19 Saunders, you are still going to say that just by
20 introducing a new independent variable and thereby
21 getting a better fit, that that is important?

22 A. There is no question about the end
23 result of this. I am sure, if your people have
24 not told you, we have applied all the tests and we
25 have statistically a better fit from what we have
done than from not doing it.

26 Q. Mr. Saunders, people have told me lots
27 of things; maybe I do not understand them all, but
28 I do understand a few things, and I am trying to
29 assist the Commission. I am going to ask you this:
30



1
2
3 are you saying, notwithstanding our discussion of
4 yesterday, that your answer to my question, which
5 I put to you at the commencement of this pleasant
6 exchange we are now having, is that you have a
7 better fit and therefore you are not interested
8 in the question of distortion by taking just one
9 element of topography?

10 A. I have not said that. I do not think
11 I would ever want to depart from a practical
12 realistic conclusion, but what I am saying to you
13 is still, very simply, that we feel that everything
14 points to the fact that the terrain has an effect
15 on maintenance. I will agree with everything you
16 said about the various things that go on in track
17 maintenance. All we are saying is we think they
18 ought to be measured; they do affect results of
19 one division versus the other. They, therefore,
20 affect the variable cost of traffic moving over
21 one division versus another.

22 Q. My question to you is this: by
23 seizing on gradient to explain the effects of
24 topography on maintenance, I am suggesting to you
25 that you can well have introduced distortions into
26 your equation, and I am asking you if you agree.

27 A. Well, it is theoretically possible that
28 there might be distortions, but everything I have
29 seen suggests there are no distortions of any
30 consequence, because if there were we would have
seen some reflections somewhere in this analysis
to point that out. And I might add when you use this



1
2
3 gradient curve -- as a crude index, we are agreed on
4 that one hundred per cent -- we are really doing
5 nothing more in concept than what Canadian National
6 did in its study when it tried to reflect something
7 of a difference, when they said: "Well, we will
8 try to put in a figure for bridges, tressles and
culverts". It is just a rough substitute.

9 Q. Just a moment.

10 MR. MacKIMMIE: Let him finish.

11 MR. SINCLAIR: I think he has made a mistake.
12 The Canadian National did no such thing.

13 THE WITNESS: I am sorry. I said bridges.
14 It was tunnels -- which is another way of indicating
15 the fact that terrain has something to do with it,
16 because tunnels occur in rugged country. Again, that
17 is a crude way of reflecting a concept, and I am
18 saying the concept is very important and should be
developed.

19 MR. SINCLAIR, Q:

20 Mr. Saunders, I am not acting for the
21 Canadian National, but I am just going to stick to
22 what the Canadian Pacific did, and I would ask you to
23 stick to that. If Canadian National want to ask
24 you some specific thing on that, I am --

25 A. I am just saying there is a principle
26 involved here, and it is not just my own idea that
27 the concept of terrain should be reflected.

28 Q. I am going to put this question to
29 you again, and if you want to apply it to the Canadian
30 National you can do so, but I am going to ask you this:
if you adopt one element of expense related to



1
2
3 topography and introduce that into an equation,
4 and if you do not give weight to compensating
5 factors on maintenance expense arising from
6 topography, my suggestion to you is that you can
7 introduce a distortion and you may get statistically
8 what appears to be an improvement but what you
9 really have is a disadvantage?

10 A. That is theoretically possible. What
11 the facts are, I am not prepared to say. I do not
12 have any reason to believe that there is a distortion.
13 There could be.

14 Q. Mr. Saunders, would you accept the
15 proposition that the overall influence of topography
16 on track maintenance expense on Canadian Pacific
17 over its 31 division is randomly distributed between
18 those divisions?

19 A. I would be shocked, utterly shocked, if
20 that were the conclusion.

21 Q. Assume with me, then, that the overall
22 influence of topography on track maintenance
23 expense is randomly distributed among the various
24 divisions of Canadian Pacific. Then, would you
25 agree it would be correct to say that the track
26 maintenance expense chargeable to grain would not
27 be significantly affected by the introduction in
28 a regression equation of an independent variable
29 measuring all the influences of topography?

30 A. The cost chargeable to --

Q. I am talking about track maintenance
expense chargeable to grain.



1
2
3 A. I think it probably would work out that
4 this element of track mile cost would come out the
5 same way -- what you have dealt with in your study
6 as the solely related costs might be the same, but
7 I do not know if that is true, because I do not
8 know what would happen to your gross ton mile cost
9 in this. We have found that the gross ton mile
10 cost is affected by these changes. Our study,
11 for example, shows that the variable cost goes
12 down.

13 Q. Mr. Saunders, I asked you -- I know
14 you said you would not accept my proposition --

15 A. Well, I am aware that you are making an
16 assumption.

17 Q. Just a moment, please -- because I am
18 going to do something with your answers later, and
19 if you do not mind, I want you to be careful.

20 A. I am sure you will.

21 Q. I want to be careful, particularly with
22 this question.

23 MR. MacKIMMIE: This is not a lecture,
24 Mr. Sinclair. Just ask the question. You do not have
25 to lecture my witnesses about being careful, and
26 whether or not they tell the truth. I have
27 resented this for the last few days. You ask your
28 questions and the Commission will decide whether
29 the witness is telling the truth or not.

30 MR. SINCLAIR: I am not attacking the
credibility of Mr. Saunders, Mr. Chairman.

MR. MacKIMMIE: Well, don't threaten him



1
2
3 with the truth.

4 MR. SINCLAIR, Q: Mr. Saunders, my question
5 is this: assume the random distribution -- assume
6 the random distribution of the effects of topography
7 on track maintenance expense between the 31 divisions.

8 Now, under those circumstances I am asking
9 you as an analyst whether in your opinion the
10 expenses chargeable to grain would be significantly
11 changed by the introduction of a refinement such
12 as the introduction into the equation of a topography
independent variable?

13 A. You are saying the effect on the
14 maintenance expenses of each division -- the effect
15 of topography on the maintenance expenses of each
would be randomly distributed?

16 Q. The effect of topography on maintenance
17 expenses would be randomly distributed between
18 divisions.

19 A. I can conceive of the assumption, but --

20 Q. Let me give it to you again. I think
21 this is important, Mr. Saunders, and this is why I
am spending so much time on it.

22 A. Yes, it is. I appreciate that.

23 Q. What I am suggesting to you is that
24 sub-soil, sub-grade terrain conditions may be
25 important in one division where curvature or gradient
26 can be important in another division?

27 A. And that these might so offset each
28 other?

29 Q. And across the system, taking all the
30



1
2
3 influences of topography together as an effect on
4 maintenance expense, that the distribution is
5 random between the various divisions, and that being
6 so my question is the introduction of an independent
7 variable into an equation to explain track
8 maintenance expense will not have a significant
9 effect upon the track maintenance expense chargeable
to grain?

10 A. You come out a little differently this
11 time, I'm afraid.

12 Q. Well, Mr. Saunders, this is what I
13 dislike about this --

14 A. Let me state my understanding of what
15 you are saying.

16 Q. I can ask you to answer the question and
17 put it back to you.

18 MR. MacKIMMIE: You will not answer any
19 question you do not understand.

20 MR. SINCLAIR, Q: You cannot say I am
21 putting it to you a little differently. It is
22 the same thought that I am putting to you.

23 A. I think it is the same thought. Perhaps
24 I did not get it before. You are suggesting that
25 with a random distribution of maintenance, an actual
26 influence of topography, if you then put in an
27 additional variable for topography -- is that what
28 you are saying?

29 Q. That is what I said.

30 A. -- that you would get no different result
with that index -- with that topography index added,



1
2
3 let us say, than you would if you left it out?

4 Q. That is correct. That is my question
5 to you.

6 That is, Mr. Saunders -- one of my colleagues
7 has pointed out that there would be no significance
8 in the difference of track maintenance expense
9 chargeable to the specific commodity that is under
study -- that is, chargeable to grain?

10 A. Well, my trouble is I think it must
11 have an effect on track mile versus gross ton
12 mile results that you get. I cannot conceive that
13 you get the same answer for each of the pieces.
14 Now, maybe a combination of all the pieces when
15 applied to traffic -- the track mile plus the gross
16 ton mile -- might give you the same answer. That
17 sounds as though that would be the way it would work
18 out -- if the traffic were distributed over all
the divisions.

19 Q. If the influence of topography were
20 distributed over all the divisions?

21 A. If the traffic were distributed over
22 all the divisions, and if the influence of topography
23 were distributed over all the divisions. It sounds as
24 though -- I would think that you would get the same
25 total cost answer, but I do not think that the
variable costs would be the same.

26
27
28
29
30



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

Q. You do not think so.

A. I do not think so.

Q. Well, if it is possible, as you have admitted, that you could get an overall cost the same for the crude factor for measuring topography you do accept and put into the equation which can necessarily then introduce significant distortion because it only measures one of the elements or two of the elements of topography.

A. I am afraid I do not understand that.

Q. We will do it all over again.

A. This last question I do not understand.

Q. I will do it over again but from the very beginning. Assume with me, and here is a question I wish you would answer, assume with me that the overall influence of topography on traffic maintenance expenditures is randomly distributed among the various divisions of Canadian Pacific. Then, would you agree it would be correct to say that the track maintenance expenses chargeable to grain would not be significant by the introduction in a regression equation of an independent variable measuring all the influences of topography.

A. That sounds reasonable to me provided we think of it in terms of the total cost chargeable, that is to say, fixed and variable.

Q. That is the constant and the variable terms in the equation?

A. Yes.

Q. In the light of that, if that situation



1
2 did exist with Canadian Pacific, I ask you to agree
3 that by introducing into an equation an independent
4 variable that measures only the effect of one or possibly
5 two topographical features that introduces substantial
6 distortions into the equation.

7 A. I have great difficulty with the
8 question, Mr. Sinclair. I am really trying very hard
9 to give you a simple yes or no to this but it is very
10 hard to answer, at least on my feet this way because
11 the grain traffic we are talking about is traffic that
12 moves in one part of the country. You are giving me an
13 assumption of random distribution of the cost of
14 topography over the whole 31 divisions. It is true that
15 that overall might have little effect in the total
16 picture and yet if you are talking about traffic that
17 moves in one part of the country and you have the
18 application of proper index and that sort of thing in
19 that part of the country unless you have assumed that
20 the topography was random in each segment of the country
21 I am not sure you could come to a conclusion very well
22 where it would be the same answer.

23 Q. Are you suggesting to me what I have
24 applied as a co-efficient equation to test out the
25 topography with the independent variable --

26 A. You are bringing up a question about
27 assuming random characteristics of topography and I have
28 not assumed that at all. I am saying I want to take it
29 the way it comes.

30 Q. I am asking you if you do not mind we



1
2 will go back, if it is reasonable, as I said you have
3 agreed, that where there is random distribution that the
4 cost of handling the traffic would not be significantly
5 affected if under those conditions you introduced a
6 crude topography factor. My suggestion to you is, and
7 I ask you if you agree, you would distort the equation
8 and the co-efficients, of course.

9 A. Yes, I think I would agree that if
10 there were random differences and we were only measuring
11 part of all the differences that there would be
12 distortion.

13 THE CHAIRMAN: In any event, can you be
14 exact?

15 THE WITNESS: It cannot be exact. We
16 can try to get within the zone of reasonableness here
17 as to what explains the expenditure of money.

18 MR. MacKIMMIE: Mr. Chairman, I might be
19 wrong but is not the purpose of this great cost conference
20 to get these technical matters ironed out between the
21 parties. Was this discussed at the cost conference as
22 an area of disagreement? I am just wondering.

23 MR. SINCLAIR: Yes, it is shown as an
24 area of disagreement, the effect of topography.

25 MR. COOPER: I am sure Mr. Sinclair's wants
26 the best answer he can get from the witness to this line
27 of questioning and I am sure the witness wants to give
28 the best answer he can but it seems to me the matter
29 has reached such complexity in the questions and answers
30 that it would be reasonable if the witness was allowed



1
2 to look at these questions in written form. I would
3 suggest that might very well be done if the witness
4 considers that he can better answer the questions having
5 seen them in written form with the various hypotheses in
6 them.

7 MR. SINCLAIR: Very well. May I make a
8 suggestion?

9 MR. MacKIMMIE: If you would let me
10 continue, please. This exchange of correspondence, as
11 far as my clients are concerned, it just has not worked
12 and as far as I am concerned I do not want to stop Mr.
13 Sinclair at all. I just asked the question. Mr. Sinclair
14 can continue as long as he likes asking questions but I
15 understood the purpose of the cost conference was to
16 solve these things. Mr. Sinclair says there is a part
17 in the document which Mr. Cooper filed yesterday having
18 to do with this. Could you tell me which one it is.

19 MR. SINCLAIR: Effects of topography was
20 an area of disagreement.

21 MR. MacKIMMIE: Well, the question of
22 topography.

23 MR. SINCLAIR: This is what we are
24 discussing.

25 MR. COOPER: I think I can produce the
26 sheet which shows the agreements and disagreements.

27 THE WITNESS: Now may I suggest on page
28 5, item 49 of that document that has been referred to?
29 It is not put in the form in which we have been
30 discussing it, though.



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

MR. MacKIMMIE: Apparently the word
"topography" covers everything there.

MR. SINCLAIR: The first sentence - are
you trying to suggest there is a distinction between
geography and topography?

THE WITNESS: No, that is not my point at
all.

MR. COOPER: The particular section which
I am informed by Mr. Sinclair he is referring to as a
part of disagreement is listed as item no. 49 on the
points of agreements and disagreements, page 34 to 37 and
in the transcript pages 19497 to 19500:

"The parties disagree on the appropriateness
of taking into account geographic differences
in maintenance cost."

THE WITNESS: I think the rest of that is
very helpful.

MR. COOPER: I will be glad to read the
rest of it:

"Mr. Saunders has constructed an index of
grades and curves to reflect the topographical
differences. The C.N. accepts in principle
the usefulness of geographic variables
and has used miles of tunnels of such
variable. The C.P. maintains that the only
variable which might be significant is
curvature but that on engineering grounds
they do not believe it would be of
sufficient importance to warrant the many



1
2 months of work which would be required to
3 work out an appropriate index. This is the
4 same point which was reported in connection
5 with the evidence of Dr. Borts (see point
6 7 -- transcript, p 20305, line 3)."

7 MR. SINCLAIR: I am taking one step further
8 and you have had it at the cost conference, by introducing
9 overall compensating factors throughout the whole of
10 topography and I rest on the first sentence because where
11 there has been a pointed disagreement at this cost
12 conference I am not limited by what was said at that
13 cost conference. I am putting to this witness a step
14 beyond what was put at the cost conference. I will be
15 quite frank about that. What I was referring to was the
16 influence of topography on track maintenance expenditures
17 which was in disagreement.

18 A. My only point is that at the cost
19 conference when we discussed this the only question was
20 whether it would be a lot of work to get a curvature
21 index put in so as any question of equalizaing -- what
22 you are suggesting is a brand new hypothesis which has
23 not been discussed until this morning.

24 Q. That is right.

25 A. It is a step beyond this, a pretty
26 big leap.

27 MR. MacKIMMIE: Well, just answer if you
28 can.

29 MR. SINCLAIR: Q. What we are trying to
30 do is understand why some of your equations have the



1
2 amazing results they do and some of the questions I am
3 putting to you might be suggestive. Let us go to another
4 matter which you have criticized and that was the
5 passenger freight weighting.

6 MR. COOPER: Does the witness want those
7 questions written down so he can consider the answers
8 to them? I think that should be clear. I think it was
9 agreed if he wanted that done it could be done but I
10 think Mr. Sinclair agreed.

11 MR. SINCLAIR: I did not say anything.

12 MR. COOPER: Perhaps we could clear that
13 up.

14 THE WITNESS: I would appreciate that.

15 MR. SINCLAIR: He will be back tomorrow
16 and he can look at his answers overnight.

17 MR. COOPER: That is all right if they go
18 into the transcript Mr. Saunders will have the opportunity
19 to look them over tonight and make what further comment
20 he would wish tomorrow on those answers so that we will
21 have the clearest of information for the Commission.

22 THE WITNESS: Could I have a copy of the
23 questions?

24 MR. SINCLAIR: Q. I have not got them but
25 the transcript will be available. Mr. Saunders, one of
26 the criticisms you had of the Canadian Pacific track
27 maintenance 202 analysis was the passenger freight
28 weighting gross ton miles.

29 A. Yes, sir.

30 Q. In the Southern Governors' Grain Case



1
2 you were dealing with traffic to the value of some
3 \$52 million dollars or \$53 million dollars.

4 A. I do remember?

5 Q. Well, is that within your recollection?
6 Around something over \$50 million dollars was involved
7 in the traffic.

8 A. The figure escapes me but it was a
9 substantial figure.

10 Q. In that case, when you made your
11 intensive cost study, what weighting did you make for
12 freight passenger differences with respect to maintenance
13 of traffic expenditures.

14 A. We just accepted the difference between
15 the yard and passenger figures that had been made by the
16 accounting system.

17 Q. And the weight, did this come under
18 the I.C.C. classification.

19 A. Yes.

20 Q. What weighting does that give traffic
21 and freight maintenance?

22 A. We just worked the rate out, it may
23 have had some accounts that were directly assigned and
24 some apportioned.

25 Q. I suggest to you what it gives is
26 practically a one to one, maybe a fraction above one to
27 one but not much more because the only effect is
28 limitation weight under the separation, do you agree?

29 A. I do not agree, I would have to think
30 that over for a little bit more carefully what the rules



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Saunders, cr.ex.
(Sinclair)

22087

1
2 are on that point. Some of the money is assigned directly,
3 some of it is on a basis of equation factor, some of it
4 a separation between the running track and yard and way
5 switching track as well as freight and passenger. It is
6 done on a rather composite basis so I just would not say
7 off hand what that final result would be.
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30



1
2
3 Q. Mr. Saunders, you had an opportunity to
4 test out the Canadian Pacific weighting, passenger
5 versus freight, for a good many months, didn't you?

6 A. I don't know what you mean by "opportunity
7 to test it out".

8 Q. You were not rushed by this because you
9 had the results of the Canadian Pacific cost study
10 for some time? Indeed, for over a year since
11 one of your colleagues first came up to the Canadian
12 Pacific?

13 A. It has been some time.

14 Q. Over a year?

15 A. I don't recall when.

16 Q. Are you going to disagree?

17 A. If you want to tell me a date -- I will
18 accept the fact it was a long time. Maybe it was
19 a year.

20 Q. When you were dealing with this freight
21 passenger separation did you know the book Railroad
22 Engineering, William W. Hay?

23 A. Yes, sir.

24 Q. Instead of developing, as you did, a
25 passenger freight weighting of six to one, why
26 didn't you accept the American Railroad Engineering
27 Association basis and the basis of weighting explained
28 by Dr. Hay's book?

29 A. I don't recall what it is.

30 Q. Did you know there was one in here?

A. Yes.

Q. I suggest to you it says this -- I am



1
2
3 reading from page 29, volume 1, William W. Hay --
4 you have the volume?

5 A. Yes, I just happened to anticipate you
6 were going to bring up that book, although I didn't
7 know in what connection.

8 Q. Well, look at page 29.

9 A. I got this book on January the 20th,
10 1954.

11 Q. 1954?

12 A. Yes.

13 Q. So you had it before you made this ---

14 A. Oh, yes.

15 MR. MacKIMMIE: Yes; 1954 is before 1960.

16 MR. SINCLAIR: Q: It says at the top of
17 page 29:

18 "For passenger locomotive gross
19 ton miles -- multiply by three.

20 For freight locomotive gross
21 ton miles -- multiply by two.

22 For cars and contents gross
23 ton miles -- multiply by one."

24 I suggest if you had done that you would
25 have had a weighting factor less than the weighting
26 factor of two to one, freight versus passenger,
27 as used in the Canadian Pacific equations and
28 which would indicate immediately to you that your
29 six to one ratio was unrealistic; do you agree?

30 A. I think that is an awfully big leap.
I have to say that many of the things that are in the
Interstate Commerce Commission accounting system, just



1
2
3 because they are in that, do not not automatically
4 have the stamp of eternal verity..

5 Q. This is not an ICC accounting system.
6 This is the application of railroad engineering
7 knowledge as developed by the American Railroad
8 Engineering Association.

9 A. Yes.

10 Q. And adopted by Dr. Hay and explained in
11 his book.

12 A. I don't feel there is any automatic
13 virtue in this. I am familiar with the American
14 Railroad Engineering Association. I have studied
15 their work since 1945 with intense closeness in
16 connection with the very important study we made
17 on railway engineering and mechanical research for
18 the Association of American Railroads, and I have
19 gone back through those records to 1910 or thereabouts
20 -- 1914. I have an appreciation of the fact that
21 railway engineers, throughout the years, have been
22 struggling with this problem and making very rough
23 estimates as to what goes on, and if you will
24 study the reports of committee 16 and other
25 committees you will find at the time this book was
26 put out there were very few new things and new
27 concepts on this equating material since 1920.

28 Q. Would you disagree with this weighting
29 put out at page 29 by Dr. Hay and accepted by Dr.
30 Hay as the proper weighting, steam -- passenger
versus freight?

A. You just put your finger on it.



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

Q. He covered it a little bit further on.

A. I will come to that.

Q. He said, just paraphrasing him, even these weightings would be high, in effect, where you have straight electrics or diesel electrics, so that even a ratio of less than two to one would be high, I suggest to you, is what he is saying where you have straight electrics, or diesel electrics. Would you agree with that?

A. He is very careful there.

Q. Well, would you agree with that, and if you want to answer it "but" afterwards, maybe you would do that.

A. I don't agree with that. I feel this whole subject is wide open and that if you read the next sentence he says:

"The engineer must be guided by his own discretion since no authoratative revisions have been proposed. The factors accepted at present should be retained to retain uniformity when comparative statistics are being studied."

It doesn't have anything to do with what the eternal verities are in this thing at all.

Q. Well, let us read it from the beginning. After giving the weighting factors I put to you earlier, the text of Dr. Hay's book goes on:

"This unit is used to obtain the equated use of the track and track structures. The equating factors have



1
2
3 been derived for steam locomotives
4 whose reciprocating motion at high
5 speeds is hard on the track. Where
6 diesel-electrics or straight electrics
7 with rotative drive are used, there may
8 be justification for using values less
9 than those given above. The engineer
10 must be guided by his own discretion
11 since no authoritative revisions have
12 been proposed. The facts accepted
13 at present should be retained to retain
14 uniformity when comparative statistics
15 are being studied."

16 I suggest to you that that indicates that
17 your weighting factor that you put before this
18 Commission of six to one is contrary to the views
19 of Dr. Hay, the American Railroad Engineering
20 Association, and is a factor that you can't point
21 to anything to support?

22 A. Well, I will certainly agree with you
23 that Dr. Hay has a different point of view, and
24 so does the Canadian Pacific which uses two to one.
25 There isn't any magic in what Dr. Hay is saying
26 in this chapter, and all I am suggesting is that
27 this area calls for more study than it has been
28 given. I say these factors were put in before
29 there was any attempt to apply regression analysis
30 to the problem.

Q. I suggest to you by putting a six
to one factor as you do in your equations fourteen



1
2
3 and fifteen in your presentation to this Commission,
4 you have introduced an unrealistic weighting
5 and that your equations for that reason are
6 distorted?

7 A. That may be. If the six to one is
8 unrealistic, then the equations are distorted, but
9 I don't think that has anything to do with what
10 Dr. Hay has to say in his book. Dr. Hay wasn't
11 dealing with regression analysis and he wasn't
12 dealing with any scientific treatment of this subject.
13 To the best of my knowledge at that time there had
14 been no regression work done by the American Railway
15 Engineering Association on this problem.

16 Q. Mr. Saunders, the six to one ratio
17 does not arise out of the regression. It is a
18 ratio that you assumed and put into the regression?
19 Agreed?

20 A. Not entirely. We did do some
21 experimental work with the regression data.

22 Q. But it didn't arise out the regression
23 analysis. It was material based on a six to one
24 weighting that you put into the equations?

25 A. Yes, we put it into the equations but
26 we arrived at it after looking at what the effect was
27 on changing the weighting, and we said, "Does it make
28 sense to use something like six to one or something
29 like two to one?"

30 Q. You applied judgment and that is how
you got six to one?

A. No.



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

Q. "Does it make sense", I thought you said?

A. Yes.

Q. Isn't that judgment?

A. Just a minute. You are taking the middle of the paragraph. We said, "How can we test whether two to one is right?". Two to one is just an arbitrary number and it has been used a lot of times, but that doesn't make it right. We want to test it. We said, "We will try to run the regression with other weights," and we did that and got this six to one result, and we asked ourselves, "Could this make sense?". It stills fits the regression results very well, so does it make sense from an objective point of view, and the analysis found in volume 2 suggests a possible basis for determining that six to one would fit from an engineering point of view.

Q. Did you run it on a one to one weight like you have used in the United States on other occasions?

A. I wish you would not put it that way, because I haven't used that.

Q. You have accepted no weighting for passenger and freight, I suggest to you? You have made no specific weighting?

A. I don't think that is an accurate statement. I think you will find their weight accounts didn't reflect a one to one separation.

Q. All right: 1.1 to one?

A. No, I don't know what the figure is. I



1
2
3 think you will find a lot of it is two to one.

4 Q. It is substantially less than two to
5 one overall: would you agree with that?

6 A. I don't think anybody can make that
7 statement. If I can explain why that is ---

8 Q. I am not interested why it is.

9 MR. MacKIMMIE: Well, I am interested, and
10 if the witness wants to explain I think he should
11 be allowed to do so.

12 MR. SINCLAIR: It is not responsive to
13 the question put; that is my position.

14 THE WITNESS: Well, the suggestion is that
15 it must be only a little bit more than one to one,
16 and I am saying the only way you can make that
17 kind of statement is to take all the reported money
18 and all the reported ton miles and compare the
19 aggregate figures for freight and passenger. If you
20 do that it will be an interesting number but it
21 will have nothing to do with how the railway made
22 the separation, because much of the separation is
23 made on a direct basis. Some of it is assigned
24 and apportioned on various traffic factors -- unit
25 miles and ton miles and two to one factors, and
26 so forth.

27 MR. SINCLAIR: It is your position you
28 can't get the number out of looking at the ICC figures?

29 A. Out of the ICC statistics.

30 Q. That is your position -- it can't be
got out of there.

A. Yes, sir.



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Saunders, cr-ex.
(Sinclair)

22096

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

COMMISSIONER GOBEIL: Do you know of
any other case where a six to one ratio has been
applied?

THE WITNESS: Not to my knowledge. This is
an experimental figure we developed with our
regression technique.

--- Luncheon adjournment.



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

--- On resuming at 2 p.m.

22097

THE CHAIRMAN: Order, please.

MR. SINCLAIR: Q. I think possibly, Mr. Saunders, it might be of assistance to the Commission to just take a look at your regressions 2 through 15, and just see from some of these the problems that they present.

We mentioned your equation 2, which is on page 28, where you added to the Canadian Pacific equation a separation between freight and passenger gross ton miles being introduced into the analysis by separate independent variables rather than by a weighting factor, and the result of that was to get an insignificant T value on the co-efficient that you developed for freight gross ton miles. And this, I think, we agreed this morning, put you on guard.

A. Yes, sir.

Q. That is the way you wanted to phrase it. Now, in equation No. 3, here you introduced -- this is at page 29 -- into the equation -- by the way, that should be for the co-efficient on road locomotive switching miles; I take it, \$4.051 not 4,000.

A. Yes, sir.

Q. It should be 4.051 x 11?

A. Right.

Q. And here you have developed a break-down between road switching miles and yard switching miles and introduced the component as separate variables



1
2 in the equation rather than having switching miles as
3 one independent variable?

4 A. Yes, sir.

5 Q. And the result of that is to get, I
6 suggest to you, an unrealistic relationship between
7 the costs of the co-efficient for road and yard switching
8 miles -- .377 as against 4037. That is a very large
9 ratio, and common sense, I think, would tell us that
10 is wrong. You would agree?

11 A. Yes, I did not consider that.
12 meaningful.

13 Q. Then, we came to equation No. 4 and
14 here you introduced a number of independent variables --
15 we discussed this for a moment this morning -- where
16 three of the ratios of T, as you put it, and you drew
17 my attention to this this morning, were showing signs
18 of weakness, and the one for yard switching miles on
19 this occasion is, as you expressed it, hopelessly low?

20 A. Yes, sir.

21 Q. Now, on equation No. 5, which is on
22 page 31, Mr. Saunders, here is the type of equation which
23 results by introducing of variables that are not
24 explanatory of the dependent variable track maintenance
25 expense, as demonstrated by the fact you have got a
26 negative co-efficient and necessarily you come down with
27 the negative T value being co-efficient applicable to
28 miles of yard switching track on this occasion minus
29 I take it, again, 1. --

30 A. Yes, sir.



1

2

Q. Or is it -- no. that is correct --

3

1,000. I'm sorry. This is right?

4

A. Yes.

5

Q. \$1,703 minus -- because this would

6

mean that the more miles of switching track you would

7

have, the less the cost would be, which I think you would

8

agree would not meet its variable cost?

9

A. I would say it appears in a very poor

10

light.

11

Q. That is the understatement of 20 years;

12

you would agree?

13

A. Yes.

14

Q. Let us look at equation No. 6. Here

15

again, you have done -- this is at page 33 -- you have

16

done a separation between yard locomotive miles and road

17

locomotive miles switching, and you have developed

18

co-efficients 7 to 1. In other words, that for each

19

road mile under your equation, there is seven times as

20

much expense as there is under your analysis from a

21

yard mile? Approximately?

22

A. Yes, sir.

23

Q. And we know from knowledge that that

24

is not a proper relationship, and it is for this reason,

25

I suggest to you, that you said that traffic expense to

26

switching requires something that does not give you

27

results such as this equation does?

28

A. Yes. We said -- as I said at the

29

top of page 33, these co-efficients cannot be interpreted

30

as the variable cost of locomotive switching miles alone,



1
2 and should not be used as such in constant traffic.

3 Q. The same thing applies to equation No.
4 7, where you have again X10, X11, being road and yard
5 locals 15 miles, a ratio of approximately 7 to 1. And
6 the same point would apply -- the point that I have just
7 discussed with you would apply in respect to equation 6;
8 right?

9 A. That is right.

10 Q. Maybe rather than doing them one by
11 one, Mr. Saunders, there is one other principle I think
12 that you have introduced in equation -- let us look at
13 equations 11 and 12, because here you have developed
14 the use of a statistical technique that I think we might
15 discuss.

16 In equation 11, here is an equation that
17 obviously is the introduction of the variables that you
18 have done to explain the dependent track maintenance
19 expenses are not meaningful, because you have collinearity
20 or inter-dependence of the variables working, and I think
21 you put it that you had seven pairs of variables showing
22 collinearity -- that is not the word --

23 A. Inter-correlation.

24 Q. Inter-correlation. It means the same
25 thing?

26 A. That is right.

27 Q. So that this equation is not meaningful
28 for that reason. You would agree?

29 A. Yes. Again, in all of this, though,
30 I think I have explained the sense in which we use that
and what



1
2 we mean when we say it is developmental and shows certain
3 things and certain defects.

4 Q. Equation 12, which I presume you put
5 forward to correct the disabilities of your equation No.
6 11, and the very insignificant T -- and I think you use
7 the word "substitution". You have introduced here a
8 theory of substitution, which is another way of saying,
9 would you agree, that you have introduced a combination
10 of independent variables to arrive at a significant T.

11 A. Let me see what you are referring to
12 now. I do not at the moment spot the word "substitution".

13 Q. Well, surely, Mr. Saunders, this is
14 the theory of substitution, when you have combined
15 variables that you said in equation 11 were independent
16 and made them one equation. At the bottom of page 39,
17 you quite frankly test out the algebra -- or, it is not
18 really algebra; it is the fact of combination. Right at
19 the bottom of page 39, you set out the fact of combination?

20 A. Yes, sir.

21 Q. And I am going to suggest to you, Mr.
22 Saunders, -- my point is this: that if you have a
23 combination of independent variables you automatically--
24 if they were truly explanatory of some proportion of the
25 expense that was the dependent variable, and you had
26 collinearity, that the very fact of combining and having
27 substitution necessarily improves the T value; nothing
28 less statistical could result. It is a theorem or a
29 truism of statistical analysis. Would you agree?

30 A. Well, I do not know whether I can agree



1
2 or not. All I can tell you on this point is that this
3 is a very complex area of statistical theory. I did not
4 feel fully competent, myself, to come to the final
5 conclusion about it, and have made use of some specialists
6 in this field to evaluate the technique, and it is on
7 the basis of their recommendations that we have stood
8 on this method.

9 I would like to explain that we have had
10 for some time a relationship with an organization known as
11 CEIR which is in the Washington area, which is, in my
12 opinion, a top-notch economic and statistical research
13 group, and they have a great deal of electronic computer
14 equipment, and very fine statisticians and mathematical
15 economists. We put this question to them some time ago,
16 and it was their conclusion that this was useful and
17 proper and a sound technique. Beyond that, I really
18 cannot go, except, if you like, I will be happy to supply
19 a memorandum from them on the theoretical basis of this
20 method.

21 Q. I am going to show you, Mr. Saunders,
22 how I approach it and see if you would agree -- and I
23 certainly would not want you to think that I am trying
24 to demonstrate any deep statistical training in what I
25 am going to put to you now; what I am going to show you.
26 I hope that you will agree that this is helpful to show
27 you that you do not have to be highly trained in this
28 to show why the statistical theorem that I put to you
29 is correct.

30 Would you just follow me in this regard.



1
2 Your equations 11 and 12 result in the same cost through
3 substitution and the same constant, with the exception
4 of one. In 11, you have got 39,000, and, in 12, you
5 have got 40,000. And the only reason you have got that
6 one single difference is because of rounding -- a
7 rounding of numbers.

8 And, so, would you agree that you have got
9 a rounding of numbers in your constant in the two
10 equations?

11 A. It is certainly close enough so that if
12 it is different for some other reason I would not attach
13 any significance to it.

14 Q. Therefore, notwithstanding substantially
15 less independent variables in equation 12 than in
16 equation 11, you get precisely, exactly the same result?
17 The same constant and the same cost?

18 A. As to certain items, yes.

19 Q. No, no. Throughout. That is the point:
20 throughout.

21 A. Maybe I do not understand what you
22 are saying. If I take X10, for example, I get the same
23 answer in equation 12 as I get in equation 11? Is that
24 what you are saying?

25 Q. Yes. What you have done is combined
26 in 12 components that are in 11 as independent variables?

27 A. Yes.

28 Q. And I am saying to you that is a truism;
29 it is a theorem that if you combine you automatically
30 improve the T value, and you change no other results?



1

2 And I ask you if you agree?

3

A. Well, what we changed is --

4

Q. The T value?

5

6 A. Well, we changed the T values, but we

7

8 changed the working numbers, too.

9

A. By grouping.

10

11 Q. By grouping; but what I am going to
12 put to you is this: if you could group everything into
13 one independent variable, you would have a fabulous
14 T value, and if you grouped them -- the very fact that
15 you have changed insignificant T's to significant T's and
16 did not change the constant your A would remain the same.
17 You have not got an equation that is explanatory of
18 behaviourism of track expense. What you have got --
19 you have proved that the statistical theorem is right?

20

21 A. Well, we proved that the statistical theorem
22 is right but we also have an equation that ties together
23 meaningful numbers, and the only controversy is whether
24 we used the right weighting factor to put them together.
25 That is the only possible area of doubt about it.

26

27 Q. Let me point out to you again something
28 that I think you should agree would be highly significant
29 here: that your R^2 's are exactly, precisely the same --
30 .939?

31

32 A. Yes, sir. I pointed that out to you
33 on page 40.

34

35 Q. But that your constant, except for the



1

2 rounding, on which we have agreed, is exactly the same --

3

A. Yes, sir.

4

5 is the same?

6

A. The cost of the equation?

7

8 Q. Yes, the application of the equation
9 to the behaviourism of track maintenance expense in
10 adding up the various output units as you have developed
11 them in 11, combining them as you did in 12, results in
12 the end dollar amount being the same?

13

14 A. Well, you would explain the total cost
15 of the railroad the same way, yes, but you would not get
16 the same answer for any particular segment of traffic.

17

18 Q. You would get exactly the same variability
19 explained-- the same dollar amount of variability explained.
20 This is the truism.

21

22 A. The same total amount of variable cost
23 to the railroads?

24

25 Q. No, of track maintenance expense?

26

27 A. Yes, sir.

28

29 Q. Explained -- no matter which of the
30 equations you used, surely, Mr. Saunders?

31

32 A. It sounds to me like a very simple
33 question. Are you saying if we apply this fact to all
34 the ton miles and so on we will get the same number of
35 total miles variable on total expense?

36

37 Q. What I am saying is if you have the
38 same A -- the same constant?

39

40 A. Yes.



1
2 Q. ... And you have got the same percentage
3 of variable explained, your R^2 is .939 in both equations?

4 A. Yes.

5 Q. That one equation is not explaining the
6 behaviourism of track maintenance expense any better than
7 the other one is -- lets start with this: this is a
8 truism?

9 A. I do not believe there is any difference
10 between us on that.

11 Q. Then I say to you and I ask you now
12 if you agree that if where you have got a problem of
13 insignificant Ts because of collinearity in seven pairs
14 of independent variables, as you have in your equation 11,
15 that by combining the insignificant Ts and thereby reducing
16 the independent variables in the equation 12, that you
17 have not done anything?

18
19
20
21 (Page 22117 follows)
22
23
24
25
26
27
28
29
30



1
2
3 A. I appreciate what you are saying and
4 all I can tell you is that this is considered a
5 very practical and effective working tool by
6 mathematicians who are a lot more competent than
7 I and I accept that ultimate conclusion.

8 Q. Would you consider this a type of
9 pyramiding?

10 A. I do not think it is pyramiding, I
11 consider this a weighting process.

12 Q. Well, how do you weight if it is a
13 weighting process and still come up with exactly
14 the same cost, exactly the same constant and exactly,
15 obviously, the same amount of variability? How did
16 the weighting change?

17 A. What we have done is to make equation 11
18 a point to study and from equation 11 we said
19 it would appear there is a certain relationship
20 between the various elements. All we did in
21 equation 12 was to convert that average relationship
22 into a single expression. In equation 12 it is
23 really no different in principle than saying I have
24 a gross ton mile reported to the Board of Transport
25 Commissioners in the freight service, I have a
26 gross ton mile -- in a passenger service but for
27 independent reasons and separate considerations I am
28 going to call one of those gross ton miles the
29 same as two of another and I multiply the passenger
30 gross ton miles by two. That is all I have done
here except I have used as a source of decision
a separate level of statistical analysis.



1
2
3 Q. With respect, I say that is not what
4 you have done at all. What I say you have done
5 is that you have -- do not misunderstand me but I
6 cannot think of a word -- you have done a trick
with numbers.

7 A. I hope not.

8 Q. I do not mean that you are trying to be
9 tricky with numbers, I mean this is a number trick
10 in the sense of a proper interrelationship of
11 statistical theory that it necessarily had to do
12 what you said it did.

13 A. Well, there is no question about that
14 but what we were concerned with was trying to find
15 out what is the right weighting factor between these
16 various elements. We used regression studies
17 without weighting, showed what that showed and we
18 said on the average this is a rating that is
19 provided and we applied that. Of course we got
20 the same answer. I think I have said that there
21 is no mystery about it but my point is this is a
method of deriving a weighting factor.

22 Q. Let me say it this way because I do
23 not want to prolong this that where you apply equation
24 11 or apply equation 12 to the determination of the
25 cost of moving grain to export positions in western
26 Canada you get the same cost to the penny leaving
out the rounding of the cost.

27 A. Well, except for the possibility that
28 there may be some difference in the proportions of
29 main and branch and yard and way and that sort of
30



1
2
3 thing, I think that would be true.

4 Q. Well, I ask you to forget about that
5 -- if you want to put that qualification in I will
6 accept it and go on. Then, I say to you this,
7 all you have done to justify equation 12 is
8 combine to overcome the difficulties of the
9 collinearity of the seven pairs of independent
10 variables in equation 11. Does this not, as an
11 analyst, immediately say to you that 12 is equally
12 as bad as 11 is for explaining the behaviourism ---

13 A. I do not think that follows because
14 I think this equation has the right to be
15 evaluated on its own. It happens you and I are
16 privy to a little secret, namely, that we actually
17 know where this weighting factor comes from and
18 we are going back to where the weighting factor
19 came from. However, if I came up to you and
20 said that we ought to use a weighting factor of
21 2.41 to 2.31, and I think that is the relationship
22 and I give you a lot of reasons why it was and
23 it seemed satisfactory to an engineer, that would
24 be the end of it. You would not be able to
25 bring up this revenue discussion. I appreciate
26 what you are saying but you have to decide
27 whether these weighting factors make sense statistically.
28 All I can do is rely on people who are greater
29 authorities than I and they say it is a useful and
30 proper and valid technique but the opponents say
it is not.

Q. All I say to that, Mr. Saunders, and I



1
2
3 am asking you if you will agree, that the technique
4 as I understand it must necessarily, as a truism,
5 result. Now, if in some circumstances, notwith-
6 standing the truism it is meaningful then all it
7 is saying is not to bother about the T values,
8 allowing for knowledge to show whether the independent
9 variables in the equation do honestly explain the
10 behaviourism of the dependent variable track
11 maintenance expenses, that is what you are saying.

12 A. All I am saying is I want to look at
13 the problem of maintenance and say what can explain
14 it. There may be a need for weighting main line
15 and branch or freight and passenger because a
16 mile is not a mile, a ton mile is not a mile, and
17 I want to see if I can bring them together on a new
18 basis.

19 Q. You do not say it this way because
20 it necessarily is going to give you a statistical
21 significant result and if you had done it in equation
22 12 the way of testing disabilities of 12 would be
23 to move from No. 12 back into No. 11 to show the
24 insignificant T values that result?

25 A. I do not think I can go beyond where I
26 have gone on this.

27 Q. All right, thank you. Now, Mr.
28 Saunders, in equation 14 ---

29 A. Let me see if I cannot leave this in
30 this way.

Q. Are you going back to equations 11 and
2?



1
2
3 A. Yes because I am still troubled about
4 the fact we do not seem to be together on what was
5 done here. As I see it, what we did is no different
6 -- what you are suggesting we do is no different
7 than taking your own track maintenance regression
8 and saying, "Well, I have a weighting factor of two
9 to one. I do not know whether that is right for the
10 weighting factor or not but what I will do is to take
11 my data and set up one of the variables as freight
12 gross ton miles and then I will take another variable
13 and call it passenger gross ton miles and I am going
14 to run that as two separate variables and see what
15 happens." I think what you are getting is exactly the
16 same problem that we had in equation 11, you are
17 getting inter co-relation and you are going to get
18 a poor result and you are going to conclude that you
19 are right on what you said to me in equation 12.

20 Q. You really should not do this because you
21 have an erroneous weighting and it is a statistical
22 truism.

23 Mr. Saunders, it is my fault I am sure that
24 I am not making my point because we are back to where
25 we were again. I point out to you that your
26 equation 11 has insignificant coefficient based on
27 substantial collinearity, expenditures on variables
28 which destroy the equation as being meaningful.

29 A. And you have something if you leave on
30 freight gross ton miles as one of the passenger gross
ton miles, you will have inter-collinearity too. You
do it by putting in a weighting factor and running



1
2
3 them as one variable.

4 Q. But what you are doing in equation
5 12 is improving the T value and that is all you
6 are doing without meeting the objection that equation
7 11 shows is in the use of all the variables you
8 are using because they are all interrelated.

9 A. The same point would apply to your
10 equation 1.

11 Q. I suggest to you that is not so for
12 the simple reason there is no collinearity in
13 equation 1.

14 A. I suggest there is because if you
15 analyse the passenger gross ton miles separately
16 from freight, look at them side by side you will
17 find they are very closely co-related.

18 Q. We do not do that.

19 A. But it is true.

20 Q. But we do not introduce them as
21 independent variables, we introduce the weighting
22 factor.

23 A. But you have done this so very cautiously.

24 Q. We have what?

25 A. You have done it very cautiously,
26 so cautiously that you said when I dealt with the
27 expenditures that you were going to use the factor
28 of two to one for a weighting factor which was a
29 decision to make, to weight rather than study it
30 but when you came to your ---

Q. Do you mean for ---

A. Yes sir, I do. When you get to your



1
2
3 investment regression you do not use the weighting
4 factor. Now, I say that shows a cautious decision
5 to use weighting in one regressio and not in the
6 other.

7 Q. And I suggest to you there is no reason
8 for weighting in investment for engineering or any
9 other basis and the reason for weighting any track
10 maintenance expense is based on the fact that
11 passenger and freight have a track maintenance expense
12 and we have the two to one rule and this is based
13 on the knowledge of the property and the way it is
maintained and that is justification for it.

14 A. I appreciate that and that is exactly
15 the only point at issue between us, it is not the theory
16 of weighting or not weighting. It is what
17 I did in equation 12 (because you did the same thing
18 in equation 1 but the difference is where you can
19 say somewhere manna from Heaven came down
20 in a ratio of two to one for passenger and somewhere
21 I got manna from Heaven which you and I know is a
22 machine which showed us what the weight is statistically.
That is the only difference.

23 Q. Well, with r espect, it rather appears
24 that you and I could argue this all day and I do not
25 think I can put more to you. All I can say to
26 you is that it is not a question of manna from
27 Heaven, it is a question of knowledge being applied
28 through handling of track maintenance expenditures.
29 In your equation 14, by introducing as independent
30 variables main track, miles of main track and gross



1
2
3 ton miles, in other words by breaking the miles of
4 track into the main and branch and also taking
5 as an independent variable gross ton miles you
6 necessarily develop collinearity, interdependence
7 on gross ton miles on main track as to its
8 behaviourism and the expense in the independent
9 variable.

10 A. Well, it is true, as I say, on top
11 of page 43:

12 "The new expression is generally similar
13 to equation 12 (except for the coefficient
14 on the substituted variable), has a better
15 fit and amply strong T ratios despite
16 a coefficient of correlation of .80 between
17 the main track and the running traffic
18 variables --"

19 Yes.

20 Q. But this is what my point is, that
21 the mere fact of introducing independent variables
22 which we discussed yesterday unless there is a
23 complete linear function if they are combinations
24 automatically^{it}/is a statistical truism and is going
25 to give you a better goodness of fit and so you
26 say, "Look, I have a better goodness of fit there,
27 therefore, I have a better equation?"

28 A. Well, I still say you have to ask
29 whether it makes sense.

30 Q. You have to try the test of knowledge
which I like to call the K test and I will agree
that is a very good test?



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

A. Yes, sir.

Q. And you will agree too?

A. Yes, sir.

Q. Now, let us look at these equations right through, Mr. Saunders -- one more point, in both of these you have a six to one passenger freight weighting on gross ton miles in both 14 and 15?

A. Yes, sir.

Q. Now, if you look at your equations 14 and 15 and, indeed, each of the equations 6, 7, 11, 12, 13, 14 and 15, you have the K test applied to the equations to show it could not be applied to cost, it is unrealistic because you have plus main track mile.

A. Yes, sir. I am not sure it is true in each of these but we certainly concluded ---

Q. One of them has a ratio as high as sixty to one, as I calculate it.

A. I think I wound up by saying that more explanation was needed of the characteristics of this switching and that we were not satisfied we had the right data or the right explanation of it.

Q. So you are not satisfied really, Mr. Saunders, and indeed your equations rather indicate that there is nothing to show that there is any difference.

A. Now, I am not saying I am satisfied that more needs to be known about this whole switching function because the data suggests too many things



1
2
3 going on. As a matter of fact, just a correction
4 of this little Vancouver thing that we touched on
5 earlier this morning makes quite an important
6 difference so it looks as though there are some
7 things on the data that need more careful study.

8 Q. I suggest to you with great respect
9 that you can distort the maintenance picture if
10 you do not look upon the Vancouver experience as
11 something that you have to take care of in the
12 costing of the commodity. What you are saying
13 is that maybe I can prove the variability explained
14 but I am not going to change the cost.

15 A. No, I think you ought to reflect it
16 somewhere in the study but it is a question of
17 whether you call it a variable cost.

18 Q. It all depends on how closely you can
19 check it but in the ordinary result it will be the
20 same?

21 A. No, I think the trouble here is I
22 am looking at the numbers of methods of finding an
23 answer to a problem, a serious, practical problem.

24 Q. That is the cost of moving grain?

25 A. No, I was not thinking of it as a
26 cost technique in cost in movement.

27 Q. I am interested in the problem and maybe
28 it is our disability of finding the cost of moving
29 grain to export position ---

30 A. I have not looked at it that narrowly,
I am looking at this from the standpoint of, have
you got a technique that can be used and will solve



1
2
3 the problems of costing generally because if it
4 is good enough for the cost of moving grain I
5 submit I would be a little uneasy about it.

6 Q. I suggest to you, Mr. Saunders, that
7 I am not so concerned with whether my availability
8 explained is 77.365 or 77.065 if all I do is
9 move it over into the constant and all I can
10 say is that with greater refinement with greater
11 expenditure of time and money I am going to prove
12 that availability of cost in relation to traffic
13 volume is a little bit higher than it was under
14 the analysis I have made.

15 A. Maybe you do not appreciate how we
16 approach this. When we did this we did not have any
17 idea what the effect would be on grain. We did
18 not ask that question. We did not care what effect
19 there would be on grain. We just thought that
20 we should see if we can figure out the meat in
21 the coconut, what was the essence of this technique
22 and we were interested in testing it and improving
23 it and to me that is the end of this. If it will
24 stand up generally in your managerial operations
25 that is an important conclusion to come to and
26 I submit I have not asked the question: "What will
27 it do to the grain", and if I am going to reject or do
28 something if it did. As a matter of fact you
29 may recall at the very first day we got together
30 on this in a staff conference and I went through
raising a series of questions with Mr. Stenason
and Mr. Barnstead and a group of people and I took



1
2
3 the position from ~~that~~ day on that we felt the
4 important question was one of the principles involved
5 and there were somethings which I suggested and someone
6 said that would raise the cost of grain and I said,
7 "that might well be".

8 Q. And your equations 14 and 15 could well
9 raise the variable cost to move grain?

10 A. It could but I think since the cost
11 conference we have checked it and found it does not.

12 Q. I say it could.

13 A. Well, on hindisght it does raise some
14 barriers and lowers others but the variable portion
15 goes down.
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

Q. What you are doing, Mr. Saunders --

A. I am not talking about how we approached it. The approach was in respect of what it did to grain.

Q. My point is this, and I think this is what the Commission, with respect, is interested in: have we, the railways, in the work that we have done improved the costing procedure for the determination of costs? The answer to that question, I think you have made clear in your answers, is "yes". Now, the Interstate Commerce Commission, other industries with less refined methods, with less precision and less technique, have made decisions involving very large sums of money, and all that we are saying is you can carry the refinements on further; with this we can agree. This may give you a more fraction of a percent here or there with variability explained, but for rate making purposes this may not be so important. This may be the distinction between while, from an analyst's point of view you may want to carry on, and you can maybe think of things that notwithstanding you have a number here you can use with confidence and with greater confidence than if you used other techniques?

A. I am entirely sympathetic with the idea that there is a zone of reasonableness about a certain cost level, and there is such a thing as carrying it to meticulous detail that is really not worth the effort, and I am entirely in support of that, but also I have to say that the mere fact you have got something that is better than taking 80% does not mean anything beyond what



1
2 you have gotten is a needless refinement. This is better
3 than taking 80% of all the expenses; there is no question
4 about that. But, because it is better does not mean it
5 is the best that can be done under the reasonable system
6 of treatment of the problem.

7 Q. That is the point -- as to what is
8 reasonable?

9 A. Yes.

10 COMMISSIONER MANN: Just on that point
11 you made, Mr. Sinclair: is it your position, as I
12 perhaps conceive it to be, that you would reject the
13 cost techniques of the Interstate Commerce Commission
14 as being inadequate for rate making purposes, although
15 these techniques have been used in the determination of
16 large sums of money in the United States? That is
17 proposition No. 1.

18 MR. SINCLAIR: You asked me a question,
19 or you state a fact?

20 COMMISSIONER MANN: I am trying to see
21 whether I have got the right connotation on what you
22 have put to the witness.

23 MR. SINCLAIR: What I put to the witness,
24 Mr. Commissioner Mann, is this: that by the very nature
25 of the way costing procedures have been done in the
26 United States by the use of territorial averages, by
27 the use of applying to all operating expenditures a
28 single variable, namely, 80%, that -- I am not rejecting
29 them for rate making purposes. My point, and my position
30 on behalf of Canadian Pacific is this, that that has been



1
2 accepted by the Interstate Commerce Commission and we
3 have in here a matter that has improved and made the
4 figures substantially more reliable.

5 THE CHAIRMAN: You have an improved
6 technique.

7 COMMISSIONER MANN: But the follow-up
8 question is, although this technique may not be perfect
9 by virtue of it being better than the technique used in
10 the United States, which is used for the disposition of
11 large sums of money, your technique therefore is valid
12 for the case in hand?

13 MR. SINCLAIR: For this case in hand?

14 COMMISSIONER MANN: Yes.

15 MR. SINCLAIR: By all means.

16 COMMISSIONER MANN: Thank you.

17 MR. SINCLAIR: And I would think Mr.
18 Saunders has made it clear if he has the data ... and
19 there is under the Interstate Commerce Commission
20 costing procedures alternatives:

21 "If data is available, special studies
22 to be substituted"

23 -- I don't know if that is exactly the words, but the
24 data in many cases is not available, but I think Mr.
25 Saunders has indicated if he had this data in some of
26 the studies he has done in the United States he would
27 have substituted special studies for averages.

28 Q. You mentioned that yesterday, I
29 think?

30 A. Yes, that is generally true, but this



1
2 seems to get a little bit out of focus when we compare it
3 with the I.C.C. system here. First of all, the fact the
4 I.C.C. has done something or has not done something does
5 not seem, to me, to have a whole lot of significance in
6 terms of what shall we do about the problem. And the
7 fact that the history in the Interstate Commerce Commission
8 has led in a certain direction does not make it right.
9 But the other thing is, when we talk about this 80%,
10 it is awfully easy to be misled about the application of
11 it. We should take the C.P.R. study, for example, and I
12 think we did this at one time early in the game, trying
13 to evaluate what you have, and take all your variable
14 money and put it down to the system -- 10% of this account
15 and 20% of that account.

16 Q. Yes.

17 A. And we could add it all up and I would
18 not be surprised if it came somewhere between 75 and 80%
19 of your total expenses ---

20 Q. You mean total operating expenses?

21 A. Yes. So, we might say for convenience
22 when we have a problem to work out in a hurry and a quick
23 situation that we will take 80% of the maintenance and
24 of the train crew wages and superintendence and all those
25 things, and apply that, and that would be our cost. That
26 would be, in effect, all the Interstate Commerce
27 Commission method does. You could do the same thing
28 with your C.P.R. study, having gone through all this
29 just as a way of finding out what the composite weighted
30 average out of pocket percent would be. It would not be



1
2 as refined, but you could do it and it is not as though
3 there is a major difference in the overall result. There
4 may or may not be a major difference, depending on the
5 traffic.

6 Q. I suggest to you, now that you have
7 mentioned a figure somewhere between 75 and 80, that I
8 think you asked for the figure and we gave it to you,
9 and we ran down as a test for you, and what you got,
10 if I recollect correctly, and I think I do, is 77% on
11 operating expenses and 40% on road property, the 77%
12 being against 80% in the United States and the 40 being
13 against 50?

14 A. Yes.

15 Q. So, the precision put into this
16 study has resulted in a lower variable cost than if you
17 used an overall percentage?

18 A. It is very close: 77 and 80 are
19 remarkably close -- within 5%.

20 Q. Well, within 5%: there is a lot of
21 money to which you apply the percentage. It is a matter
22 of the poor farmer who applies 10% to \$10.00, and the
23 economic royalist, such as you, who applies 10% to
24 \$10 million.

25 A. Well, of course, you can talk in terms
26 of making a fundamental criticism of one method versus
27 the other if you keep in mind the refined method does
28 produce an out of pocket expense which is not greatly
29 different from the 80%. It does not make the 80%
30 applicable to everything, either.



1
2 Q. Yes. Well now, Mr. Saunders, if I could
3 move to another aspect of your submission to the Commission,
4 and that is in respect of train weights.

5
6 --- A short recess --

7
8 Q. Mr. Saunders, in your opinion the
9 necessity of distinguishing the cost of through trains
10 and way trains is a basic consideration in getting out
11 the costs of any traffic; is that not correct -- that
12 is a paraphrase of your statement in the Trans-Continental
13 case?

14 A. The basic concept is certainly, Mr.
15 Sinclair, good and an obvious truth and one that I
16 believe in. I am not sure about all the rest of that.
17 But, certainly, to the extent one can and where it is
18 important to make distinction, it is a very valuable
19 distinction to make.

20 Q. I am reading from page 6541 of the
21 transcript in the Trans-Continental case. I have a
22 photostat here but I have not got all the evidence
23 you gave.

24 Q. On page 24 and 25, you again refer
25 to deficiencies of system average cost
26 because of the failure to reflect differences
27 in main and branch and way and through.

28 I take it from these two references
29 that you regard the failure of Witness
30 Carpenter's study to separate main and



1
2 branch and way and through to be the
3 major deficiency in his study?

4 A. Well, they are certainly extremely
5 important, I would say basic consideration
6 in getting out the cost of any traffic.

7 Q. These seem to be the things that you
8 always come back to to identify when
9 in the course of your testimony you
10 criticize the use of system costs."

11 A. That is another question,

12 Q. Yes.

13 A. I see.

14 Q. So, I would say, basic consideration
15 in getting out the costs of any traffic?

16 A. Yes, that is right.

17 Q. But in certain cases where the data
18 was not available to separate way and through trains,
19 notwithstanding that stability, costs studies are made
20 and determinations involving substantial sums have been
21 made by the Interstate Commerce Commission and indeed
22 by the Board of Transport Commissioners?

23 A. Yes, sir. You do the best you can
24 with it and you have to evaluate the importance of
25 the missing link in that particular problem. If the
26 way train is not very important in the particular
27 problem, then you have not lost very much by not
28 having that additional information.

29 Q. In your brief, and at page 46 to
30 this Commission you state from an analysis you did



1
2 of materials supplied by the company covering the
3 movement of grain from Winnipeg to Fort William that
4 the Canadian Pacific method of average train weights
5 has overstated the train miles in this direction by
6 21%. That is your conclusion on page 46; do you see
7 it?

8 A. Yes, sir.

9 Q. Now, the important thing in that is
10 "in this direction"; that is, in the direction Winnipeg
11 to Fort William?

12 A. Yes, sir; that is all we had to study.

13 Q. Yes, because the importance of it is
14 explained by you back over at page 44 in the last sentence
15 of your first paragraph in which you say this:

16 "It can be deemed that the C.P.R. has
17 taken the position that the statutory grain
18 traffic cannot be either credited with
19 moving in heavier than average trains or
20 charged with moving in lighter than average
21 trains."

22 A. Yes, sir.

23 Q. And the importance of it in the direction
24 Winnipeg to Fort William is that, as I think you will
25 agree, empties for grain move in the opposite direction
26 in lighter than average trains?

27 A. Well, they certainly move in lighter trains
28 than they do in the loaded direction.

29 Q. And by sub-division by direction, be-
30 cause of the nature of the way the road is operated



1
2 ex-Fort William west, empties for the grain traffic
3 will be in lighter trains than the average train Fort
4 William-Winnipeg?

5 A. Between Fort William and Winnipeg?

6 Q. Yes.

7 A. Oh yes, I think that is true. There
8 is no mystery about that, though. When we first started
9 on this we asked the C.P.R. for that data and they said
10 they could not get it; it was very difficult to get.

11 Q. We said we did not have it.

12 A. We asked for the data and we were told
13 it would be a very difficult job and time consuming.

14 Q. Well, it requires tracing from the---

15
16 A. It did not seem to be a big job when
17 the time came to do it. We walked into the meeting and
18 they said we have checked that east-bound and west-bound
19 and the answer is taken care of.

20 Q. I wonder if you have any idea of the
21 cost of the requests made by consultants on Canadian
22 Pacific for checking and things like that? I suggest
23 to you they have been pretty substantial. You would not
24 disagree with that?

25 A. I do not know what it has to do with
26 the question. I am saying when we asked for it in a
27 perfectly simple way we realized we had loaded direction
28 studies, and we said, "Look at the round trip", and we
29 were told we could not look at it, and all of a sudden
30 we find it had been done.



1
2 Q. Well, you were glad to have the
3 additional information?

4 A. Always glad to have additional
5 information. I would like to have it in time, however.

6 Q. Well, all things to all men at some
7 time. On the basis of this analysis you made of the
8 eastern direction between Winnipeg and Fort William you
9 drew the conclusion in this way at the bottom of the
10 page:

11 "It exposes the fallacy of the assumption
12 that because many, if not most, trains
13 carry some grain, an average train weight
14 is proper."?

15 A. Yes, sir.

16 Q. But to make that assessment I think
17 you have to look at both directions and by trains over
18 a subdivision by direction. You cannot do it by an
19 analysis by taking one segment of the line?

20 A. I am sorry to disagree, but that
21 sentence is a perfectly proper valid sentence based on
22 the study we have made. It exposes the fallacy of
23 assuming that average train weight is proper just because
24 most trains carry some grain. That is what the sentence
25 says.

26 Q. Oh, I am beginning to see what you
27 mean. What you mean is that just because most trains
28 carry some grain, that alone is not enough to take
29 average train weights; that is what you mean?

30 A. That is right; that is what this whole



1
2 section is about.

3 Q. Well, I do not know about that, but
4 I now understand and I apologize for tying that in with
5 the 21%. In your analysis to arrive at this 21% figure
6 you have supplied us with your working papers?

7 A. Yes.

8 Q. In your approach to the problem you
9 considered that the average weight of a grain car was
10 an important factor in the determination of the
11 establishment of average train weights?

12 A. Yes, sir.

13 Q. I am going to suggest to you this,
14 Mr. Saunders, that the average weight of a grain car
15 in the way that you developed your documents had no
16 effect whatsoever?

17 A. Well, that is an interesting observation.
18 I am surprised at it.

19 Q. Would you think there would be a
20 significant effect if you took 40 tons per car instead
21 of 80 tons per car? I have given you a big range.

22 A. Are you asking me whether the train
23 weight would come out the same way as we show if we
24 had used a different rate per car?

25 Q. Yes.

26 A. I would be surprised if it came out
27 the same -- yes sir, I would.

28 Q. I have prepared a little arithmetic,
29 Mr. Saunders, and I would ask you to look at it and I
30 would ask that it be taken into the record. It is



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

Saunders, cr.ex.
(Sinclair)

22140

1
2 straight arithmetic. I could put this to you in questions,
3 but I think it is a little easier to follow this way,
4 and this is the reason I have done it.

5 MR. MacKIMMIE: It is a very unique way
6 of getting it into the record -- as long as it is Mr.
7 Sinclair's table, or whatever it is.

8 MR. SINCLAIR: I will take the responsibility
9 for the arithmetic.

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

26

27

28

29

30

EXAMPLES OF AVERAGE WEIGHT OF CONSTRUCTIVE GRAIN TRAINS USING GRAIN TRADES METHOD

EXAMPLE I

Sample Trains Weight (tons)	Number of Grain Cars	Assumed Gross Weight of Grain Car	Total Weight of Grain Cars on Train (Col. 2 x Col. 3)	Constructive Grain Trains (Col. 4 + Col. 1)	Assumed Gross Weight of Grain Car	Total Weight of Grain Cars on Train (Col. 2 x Col. 6)	Constructive Grain Trains (Col. 7 + Col. 1)	
Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	
3000	30	80	2400	0.8	40	1200	0.4	
4000	20	80	1600	0.4	40	800	0.2	
2000	15	80	1200	0.8	40	600	0.3	
TOTAL			5200	1.8	TOTAL		2600	0.9

Average weight
of constructive
grain train $\frac{5200}{1.8} = 2888.9$

Average weight
of constructive
grain train $\frac{2600}{0.9} = 2888.9$



1
2 Q. You will note here that this shows
3 examples of average weight of constructive grain trains
4 using grain trade's method, and that is my short way of
5 explaining the grain handling rather than pool, pool,
6 pool and UGG. I have taken sample trains of 3,000,
7 4,000 and 2,000, and the number of cars are 30, 20 and
8 15. In example 1 I have assumed a gross weight of a
9 grain car of 80 tons, and of course I have multiplied
10 them out as the statement shows, and I have constructed
11 the average weight of the constructive grain train with
12 gross weight of grain car of 80 tons and the average
13 weight comes to 2888.9.

14 In example No. 2 I have taken the same
15 weight of trains and I have done exactly the same thing
16 except instead of using 80 tons for the gross weight
17 of the car, I have used 40 tons, and again I have
18 calculated the average weight of the constructive grain
19 train, and the number is 2888.9, exactly the same as
20 in example No. 1.

21 A. That is very interesting.
22
23
24
25 -
26
27
28
29
30



1
2
3 A. Well, the reason that you get this,
4 I think, is obvious. All you have done is
5 just cut everything in half, and the relationships
6 are the same in both cases.

7 Q. It is obvious I have cut everything in
8 half?

9 A. You cut the weighting factors in half.

10 Q. I cut one factor in half: the average
11 weight per grain car -- the weight per grain car ---

12 A. I want you to appreciate that obviously
13 if the grain in fact did weigh forty tons then the
14 weight of the train would be quite different, wouldn't
15 it?

16 Q. I suggest what this shows, Mr. Saunders,
17 is -- this shows that necessarily the gross weight
18 of grain in a car is not a factor that would affect
19 the average weight of trains?

20 A. Well, we seem to differ on the whole
21 question of what this study is all about. I submit
22 we are interested in the practical question: "What
23 are the costs?".

24 You keep giving me these little things which
25 I submit are very interesting mathematical exercises,
26 but which have nothing to do with the question. I
27 would like to explain why.

28 Q. Mr. Saunders, I do not think that there
29 is any use arguing with me as to why I do things.

30 A. Well, sir, I am trying to give ---

Q. You can say why you want to say you
say something, but don't ---



1
2
3 MR. MacKIMMIE: This is one - of the most
4 unique performances I have ever seen. My learned
5 friend steps up and says: "Here is something I
6 have made and I will take responsibility for, and I
7 want to ask you questions about it". But as soon
8 as he starts to answer, Mr. Sinclair says, "I am
9 not interested in that", and he starts to tell what
10 it is. This is not Mr. Saunders' study, and I
11 submit if it is put to him Mr. Saunders should be
12 given full opportunity to say anything about it,
13 or my learned friend had better sit there and give
14 his evidence about it.

14 MR. SINCLAIR: With all due respect to my
15 learned friend, what I take responsibility for is
16 the numbers and the calculation. Common sense
17 takes responsibility for what they do.

17 THE CHAIRMAN: If he has anything to say,
18 he can say it.

19 THE WITNESS: Perhaps I spoke too quickly,
20 and I did not mean to get you upset about the
21 implication of it, but it is really a practical
22 problem here, and you just cannot take a 3,000
23 ton train and say, "I am going to assume 80 tons
24 per car and get a certain figure, and then I am
25 going to assume 40 tons per car and get a certain
26 figure", because realistically if the train did have
27 30 grain cars in it and they weighed only 40 tons
28 you would not have 3,000 tons in that train in the
29 second instance. I am using that to illustrate
30 something that is omitted from this calculation when



1
2
3 we took your data and determined what the average
4 weight was.

5 Q. The average weight per train?

6 A. The average weight of the grain train.
7 We had not only the tonnage of the train -- the
8 total tonnage of the train -- but we had the
9 number of cars in the train: both grain cars and
10 total cars.

11 Now, it is perfectly obvious to us when
12 we made the study that having made a calculation of
13 the weight assignable to grain you want to stop
14 and look at the tonnage that is left over in that
15 train and divide it by the working cars in the train
16 and see if that makes sense. It is evident
17 from this that if you had, say, fifty cars in the
18 train, and you had only a 40 ton weight for the
19 grain portion of it you would have a tremendous
20 and a ridiculous weight for the rest of the train --
21 for the rest of the cars in the train.

22 So, there, while I agree with you that you
23 can do this there has to be a little control on the
24 figures you use.

25 Q. Let us take a look at the control you
26 exercised.

27 A. Yes, sir.

28 Q. When you did your study, you omitted
29 from your account caboose, hops and light running?

30 A. Yes, sir.

Q. And I suggest to you that by omitting
light running, which is a necessary adjunct of railway



1
2
3 operation, that you necessarily biased the figures?

4 A.. Not if you are trying to get the
5 weight of a train that hauls grain. Q. You are trying
6 to get the average weight and total weight of all
7 cars in all trains?

8 A. I didn't think so.

9 Q. You did not?

10 A. No, sir. That is a different
11 question.

12 Q. Let me ask you this. If because
13 of the movement of grain there is a transfer of power
14 that is caused by the traffic you are studying,
15 then you should take into account light running
16 as well as heavy running; should you not?

17 A. It would certainly be an element of
18 cost to consider.

19 Q. And in following your method, you
20 cannot reflect light running, I suggest to you?

21 A. Well, light running can be treated as
22 an overhead at some point in the costing, but I am
23 asking one simple question, and I think Mr. Stenason
24 was asking one simple question: "What is the weight
25 of these trains that haul grain?" . And in response
26 to a question from one of the Commissioners, he
27 put in this exhibit, and he said, "this shows that
28 grain moves in average trains", and I am merely
29 taking that statement and saying it does not show
30 any such thing.

Q. I think now, Mr. Saunders -- and I do
not want to get into this with you -- but I think the



1
2
3 question Commissioner Balch asked him was how many
4 solid grain trains there were. He didn't ask him --

5 A. What was Mr. Stenason's answer? I
6 suppose the record is there.

7 Q. Yes, the record is there.. His
8 answer was there was practically no solid grain trains.

9 A. Yes, but the conclusion he added to
10 it was that the study shows that the grain moves in
11 average trains. That is the point I am addressing
myself to.

12 Q. And I say the method you followed to
13 try to show that the grain did not move in average
14 trains cannot be used unless you give some weight
15 to light running caused by the movement of traffic?

16 A. I am saying that is a separate question.

17 Q. Can we agree on this? Can we
18 agree that your suggestion that there would be a
19 difference between the average weight of trains
20 predominantly grain -- let us put it that way --
21 predominantly grain, would only be applicable where
22 there was an ad-mixture of traffic and there was
a substantial amount of traffic moving other than
grain?

23 A. I do not think I understand the
24 question.

25 Q. Your hypothesis is that grain moves
26 in heavier trains than average train weights?

27 A. I do not know. I do not have any
28 hypothesis. I do not think I have any hypothesis
29 at all. I asked myself the question: "What are
30



1
2
3 the weights, the average weights of the trains in
4 which grain moves between Fort William and Winnipeg...",
5 which was the place where we had the data. And I
6 answered that question.

7 Q. We have discussed part of that. It is
8 my fault, Mr. Saunders; I am not making this clear
9 to you.

10 My question was this: the question of
11 whether grain moves in trains of greater than average
12 weight to be significant would have to be only in
13 areas where there was a substantial amount of other
14 than grain traffic.. Am I not making myself clear?

15 A. You put the word "the question". I
16 do not understand that.

17 Q. The question I am raising with you --
18 let me put it this way, then. If in certain
19 areas or certain sections of the railroad the large
20 proportion, say, 75 per cent of all traffic was
21 grain traffic, then the problem, if there is a
22 problem, of grain moving in trains of greater than
23 average weight would not be applicable because
24 grain would be making the train ipso facto, being
25 such a large proportion of the traffic?

26 A. You are saying there would not be as
27 big a difference between weight of the train hauling
28 the grain and the average train in any territory
29 where most of the traffic is grain?

30 Q. I will say there will be no difference
because I have given you a percentage that what
calls for train dispatch is grain. In other words,



1
2
3 to use your definition, all trains would then be
4 grain trains because they would be predominantly
5 grain?

6 A. No, I do not think so.

7 Q. You do not think so?

8 A. You could very well have the dispatch
9 of trains for service reasons every hour, let us
10 say, and you might have twenty cars on them. The
11 grain might not necessarily be on any of ~~the~~
12 those cars. You might say the grain is going to
13 move whenever we feel like moving it.

14 Q. Let us take the Stewart Valley branch
15 line, where there is restricted train service,
16 and over a year there would be 99 per cent grain
17 moving and one per cent other traffic.

18 Now, under those circumstances do you
19 think they would run a train when there is maybe
20 ten trains a year on this subdivision -- do
21 you think of those ten trains they would run a
22 train other than a grain train under your
23 definition? This is, again, impossible
24 mathematically, I suggest to you?

25 A. I do not know what you mean by "other
26 than a grain train".

27 Q. Other than a train which is predominantly
28 grain, and therefore the average weight of the trains
29 by subdivision by direction would be applicable to
30 grain traffic?

A. I would certainly agree in that
situation the weight of the grain train would be



1
2
3 very similar , very close, to the weight of the
4 average train. I think you are bringing an other
5 element which is, I feel, very important, but
6 which I do not touch on in this particular comment.

7 The element you are bringing is what traffic was
8 responsible for running the train. We have not
9 asked that question. It is obvious if you take
10 that point of view you could very well argue
11 that the grain traffic should not be charged at all
12 with anything except the weight of the kind of
13 trains you would run if all you had to worry about
14 would be grain. And this would be very heavy trains.
15 The trains would be heavier.

16 Q. You would have to do a lot of other
17 things and talk about delayed car costs, etc.;
18 you would agree?

19 A. I am merely trying to put up what you
20 said about going to the purpose of the train. If
21 you ask that question, you are putting in another
22 element to the discussion.

23 Q. Maybe it is the way I walk about or
24 something, but I was giving you a question that I
25 thought we could get to a "yes" on, because it
26 was just another one of arithmetic. If the grain
27 is the predominant factor and so overwhelms
28 the traffic moving on a subdivision by direction
29 necessarily. I suggest to you as a matter of one
30 plus one equalling two or absolute logic grain
trains are the average trains over that subdivision
by direction.



1
2
3 A. They would be very close to it, but
4 they would not be the same.

5 Q. By direction?

6 A. My only point is that the degree of
7 closeness depends on the proportion of grain. I
8 think that is plain arithmetic, really.

9 Q. Well, I think the way I put it to you
10 is arithmetic, and I do not qualify arithmetic.

11 A. If we differ, it is only because we
12 are talking about two different things. It is
13 fundamental. I am saying that if grain is 90
14 per cent of the traffic it isn't going to be
15 exactly the same as the average. It maybe very
16 close to it. And if it is 70 per cent, it will
17 have even less proximity to the average.

18 Q. Well, Mr. Saunders, I will leave
19 average weight of grain trains and average weight of
20 other trains. Just because it is a field I find
21 a little easier -- and I am not trying to put
22 you out of focus here -- I am going to skip and I
23 will come back maybe sometime tomorrow or the next
24 day to ---

25 THE CHAIRMAN: Or, next week.

26 MR. SINCLAIR: Could be, sir. I recall
27 Mr. Stenason in his evidence here was under
28 cross-examination for five days and those days
29 ran from numerous counsel asking questions, of
30 course, from 9:30 to 5:00 for four of the days of
the week, and the last day from 9:30 until after
six. And, also, with the expert of the railways



1
2
3 Mr. Ford K. Edwards, he spent a great deal of
4 time on the stand. I hope that your remark,
5 sir, did not mean that by asking these questions I
6 was wasting the time of the Commission.

7 THE CHAIRMAN: No, no. Go right ahead.

8 MR. SINCLAIR Q: Would you look at
9 your section "Cost of Money", please, Mr. Saunders?

10 A. Page 56 of volume 2?

11 Q. Yes?

12 A. Yes, sir.

13 Q. In the Canadian Pacific cost study,
14 did you note any conservative element with respect
15 to the treatment of working capital?

16 A. I do not recall.

17 Q. Do you recall in the Canadian Pacific
18 any working capital and cost of money on working
19 capital being assigned to the cost of handling
20 grain?

21 A. I just cannot remember. I do not
22 recall whether it was in that base figure to
23 which you apply the ten per cent.

24 Q. Mr. Saunders, assume with me that
25 there has not been in the Canadian Pacific cost
26 study an amount assigned for cost of capital and
27 the cost on that is a true cost of moving grain.
28 It is a variable cost of moving grain. Working
29 capital, cost of money on working capital.

30 A. I must have missed something in the
question.

Q. I am asking you to assume with me



1
2
3 that in the Canadian Pacific cost studies there
4 is not an element for working capital.

5 A. Oh, all right. Yes, sir.

6 Q. Now, I am going to ask you this:
7 that as a cost analyst it is your practice to
8 apply to a section of the study traffic a portion
9 of working capital?

10 A. Yes, I think that is generally a proper
11 allowance.

12 Q. And the larger the proportion of the
13 t raffic involved the greater the amount of the
14 working capital necessary, would you say?

15 A. I do not know what you mean by that
16 working capital. I think that would ordinarily
17 be that of strictly a percentage factor, not a
18 different percentage, certainly.
19
20
21
22
23
24
25
26
27
28
29
30



1
2
3 Q. A percentage of what?

4 A. A percentage of the investment or
5 a percentage of some other yardstick you might
6 use.

7 Q. As to the study traffic I am saying
8 the bigger the traffic would there be the bigger percentage
9 of working capital?

10 A. No, I do not think that at all; the
11 bigger percentage of working capital I think would
12 be quite unusual. The bigger number of dollars
13 assigned to that traffic in proportion to the amount
14 of traffic we are talking about but not a
15 bigger percentage.

16 Q. A bigger percentage of the overall
17 required working capital of the corporation would
18 be applicable depending on the amount of the traffic
19 that is being studied?

20 A. Yes. Big traffic, big working capital;
21 little traffic, little working capital. That is
22 what you are saying.

23 Q. Now, you agree as a cost analyst that
24 cost of money is an important element in the
25 determination of the variable cost of moving
26 traffic?

27 A. Well you have to ask yourself the old
28 question as to whether it applies in the particular
29 situation. It is not automatically something you
30 would put in without thinking about it.

Q. Let me ask you what cost study you
can referred me to that you have prepared in which



1
2
3 you did not have the cost of capital element? Does
4 the ICC provide for cost of capital development?

5 A. Well, the ICC does provide whatever
6 the parties want to put in but generally the request
7 is, or the suggestion certainly is, that some allowance
8 of return on investment will be included as part of
9 the total cost. Generally we have done that in
10 our studies. There is no disagreement about that.

11 Q. And, indeed, in the most recent study
12 that I think you gave evidence in, do you remember
13 what factor you put in?

14 A. The most recent study I gave evidence in?

15 Q. Yes, a major case, I cannot keep up
16 with all the little ones but the latest major case you
17 were in.

18 A. Well, generally in these general cases
19 we have used four per cent on rate-making value
20 or six per cent on net investment.

21 Q. Six per cent on net?

22 A. Sometimes six per cent. I think we
23 used six per cent on book investment in the Trans-
24 Continental case.

25 Q. Six per cent on book?

26 A. Yes, sir.

27 Q. That is the original cost less
28 depreciation per book?

29 A. Yes, sir, and that includes working
30 capital too.

Q. And that was six per cent net after taxes,
federal tax?



1
2
3 A. Yes, that is right. You have to
4 appreciate the question may be different under
5 different issues. We were then talking about
6 divisions of revenue and it was a matter of
7 position as among the railways what yardstick
8 they wanted to use, one versus the other, and it
9 is nothing rare to do that. Where the rate is
10 compensatory or where there is a policy involved
11 for the nation or anything of that sort it is
12 a very specialized kind of question.

13 Q. I suggest to you what you were doing
14 was applying there, Mr. Saunders, what in your best
15 judgment and based on the data that you had available,
16 the cost of moving specific traffic by railroad
17 and you were acting for one group of railroads
18 and you were saying in there that these railroads
19 had to earn reasonably a six per cent on net
20 investment.

21 A. No, I am afraid that is not an
22 accurate expression of the issue, of the position
23 that I took. We were there dealing with the position
24 of two parties and one of the parties said, "We
25 want to earn, we want to set up as our yardstick
26 for fair divisions between you and me as a test
27 the earning of six per cent after tax on net
28 investment". The other party said, "We think that
29 it is fairer to use four per cent." This is not
30 a matter of what is the right number, it is strictly
a matter of policy as to what the railway wants
to use as its standard. It is not a question



1
2
3 of right or wrong at all.

4 Q. Did you not accept six per cent in the
5 Transcontinental Divisions case and support it?
6 You personally supported it as a reasonable figure
7 to be taken as reflecting the cost of money in that
8 case?

9 A. No, I do not think you have ever
10 found me to say a thing like that that it is a
11 reasonable figure for the cost of money. It is
12 a matter of position, not a matter of right or
13 wrong. It is a matter of what is the yardstick
14 or the goal that that particular group of carriers
15 is trying to achieve. Railroads in general revenue
16 cases in the United States have for years said, "We
17 want a six per cent return on investment", and they
18 have used that as their basis of requesting a
19 general increase, but they have never earned it
20 and if they usually go back in and ask for an
21 increase in rate it would not produce it.

22 Q. I suggest to you you made clear when
23 you were looking at cost of money that the earning
24 power was not related and in answer to Mr. Freeman
25 in one of these cases you said that was your view.
26 Do you remember being cross-examined by Mr.
27 Freeman?

28 A. I do not recall, but I do not know what
29 you just said either. My views are usually
30 carefully considered and this is something I had
been interested in for a great many months and
I would be very surprised if I ever said cost of money



1
2
3 was a yardstick for determining ---

4 Q. What I said to you, Mr. Saunders, is
5 that return earned and cost of money were very
6 different.

7 A. Well, that certainly is true.

8 Q. And that when you put it into a case
9 and gave evidence you made this clear?

10 A. I am surprised you have not brought up
11 my article in Railway Age which deals with this
12 subject.

13 Q. Here is the sworn testimony you gave
14 in this case and I will read the whole matter through
15 because I think it covers some of the matters you
16 were talking about.

17 A. Is this cross-examination by Mr. Freeman
18 in the Transcontinental divisions case?

19 Q. Yes, volume 31 of docket 31503
20 commencing at page 6547:

21 "Q. Turning back to your exhibit at
22 page 20, you appear to criticize witness
23 Carpenter's use of 4 per cent return which
24 you say and I quote, 'is not the return
25 which each group actually earns'. Are you
26 suggesting that it would be proper to use
27 as a cost the return each group actually
28 earns?

29 A. No, this is exactly the reason
30 why these cost scales can't be used as a
revenue need measure. If we want to look
at the revenue needs of the carriers and



1
2
3 we look at their rates of return and
4 they are different, you don't have any
5 test at all of revenue need by assuming
6 they are the same.

7 You would have to look at the actual
8 rate of return to know whether one in
9 fact is any more or less than the other.

10 Q. What rate of return did Dr. Edwards
11 use in his study?

12 A. He uses my Form A cost figures,
13 six per cent return.

14 Q. Which reflects six per cent?

15 A. Yes.

16 Q. Which is not the cost each group
17 actually earns?

18 A. That is exactly the point and there
19 is no indication of actual revenue need
20 either. When we talk about costs, we are
21 not talking about revenue need. That is
22 exactly what this testimony is attempting to
23 distinguish.

24 Q. Does six percent represent the
25 cost of money as that term is commonly
26 understood, of each group of roads?

27 A. Well, it could be thought of that
28 way. I think it is just really a yardstick
29 or a standard that the carriers would like
30 to achieve as a base or a minimum yardstick,
point of departure.

Q. The historical cost of money for the



1
2
3 railroads as a group is four percent,
4 is it not?

5 Mr. Trienens: What is your rate of return?

6 Q. (By Mr. Freeman). Cost of money?

7 A. We would have to go into a little ---

8 Q. Isn't this the sense in which the
9 cost section uses the term?

10 A. The cost section uses four per cent
11 as an average rate of return historically
12 earned over a period of years but that
13 isn't the same as the cost of money.

14 Q. I will settle for your definition
15 which is much more precise."

16 A. Well, that is fine, I certainly stand on
17 that,

18 Q. So when you are looking for cost of
19 money you do not expect earnings to indicate what
20 the cost of money is?

21 A. No, not at all, because I think they
22 are two different things. Is that not what I said
23 there too?

24 Q. That is what you said there. For
25 instance, in this statement we were referring to what
26 the Canadian Pacific actually earned being 4.17 gross
27 when you were under the heading of cost of money
28 you indicated the C.P. earned 4.17 gross on net
29 investment before income tax. Then you made a
30 calculation on the basis of that and in the next
paragraph at page 56 you went on to point out that
Canadian National had an operating deficit. My



1
2
3 question to you is: what, in your opinion, setting
4 aside what was actually earned, is the cost of money
5 to Canadian Pacific?

6 A. Well, of course, that is what I deal with
7 here in three rather solidly filled pages.

8 Q. I have just dealt with some of them with
9 you and I thought we would put aside what was earned.

10 A. My position on this I think is a
11 simple one; if you boil it all down you can make
12 a calculation of the cost of money as witness
13 Smith did but I do not quarrel with the calculation
and ---

14 Q. As witness --- ?

15 A. Smith, was it not?

16 Q. Yes?

17 A. Witness Smith did and you can arrive at
18 the figure and it will show what Mr. Smith showed.

19 The problem is what does it mean after you have got
20 it. I have not said the cost of money is a different
21 principle, I have not debated that question at all.
22 I have gone to the question of, after you have got
it, how do you use it and should we use it in
this situation.

23 Q. You are not disputing, I take it, that
24 the cost of money to Canadian Pacific is $6\frac{1}{2}$ per cent
25 net? What you are saying to this Commission is,
26 assuming that to be so, this is the way the numbers
27 work?

28 A. No, I am saying that witness Smith
29 said that if I want to reproduce this property it will
30



1
2
3 cost me $6\frac{1}{2}$ per cent to do it.

4 Q. Could you refer me to where he said
5 that in the transcript?

6 A. I think that is the implication of 'cost
7 of money in the method he used in calculating it.
8 He says if he has to go out and float stock it
9 will have a certain return in order to attract
10 capital for that stock, a certain amount to get
11 bonds and so forth and when I put that altogether
12 it will be $6\frac{1}{2}$ percent weighted.

13 Q. Do you think Mr. Smith in presenting
14 his evidence to this Commission took present cost
15 of debt money?

16 A. Present cost of debt money? I do
17 not recall it was present cost.

18 Q. I suggest to you what he did was
19 take the historical cost of debt and got out of a
20 part of the equity capital a figure as low as 3.57
21 and he was not doing what you indicated at all.

22 A. I think he was doing that. I do
23 not recall what figures he used for interest rates on
24 the bonds.

25 Q. They were what the company was paying.

26 A. I suggest that built into this is
27 a concept of what it would take to float securities,
28 this is what the stockholder would want and that
29 is the whole theory on which the whole proposition
30 is based and it is that theory I am challenging.

Q. Well, Mr. Saunders, have you ever given
testimony in any proceeding as to the determination



1
2
3 of cost of money for regulatory purposes?

4 A. Yes, sir.

5 Q. And have you ever given a figure different
6 than the six per cent net after federal income tax?

7 A. Yes, sir.

8 Q. In what case?

9 A. It was, it seems to me either in some
10 case involving the Jersey Central Railway or possibly
11 the Hudson Manhattan Railroad -- I believe it was
12 in New Jersey, as I recall and the calculation was
13 something like 14 per cent or 25 per cent.

14 Q. These were very peculiar circumstances?

15 A. Not at all, it simply meant the railroad
16 having a very bad earning record would have a cost of
17 money under this theory of rather staggering proportions
18 merely because it had a bad earning record.

19 Q. Did you calculate your cost of money
20 and ask them to base the cost of money at 25 per cent?
21 This sounds like a company that was bankrupt?

22 A. It was not bankrupt but it had a very bad
23 earning record.

24 Q. Is that not a commuter line that runs
25 out of New York?

26 A. It runs between New Jersey and New York.

27 Q. Practically a street car line?

28 A. That is what we call the Hudson tubes
29 there but it illustrates the cost of money. The other
30 one is the Jersey Central Railroad.

Q. It has had a rather bad career too?

A. That is exactly what I am saying to you,



1
2
3 that when you go through these calculations the worse
4 the earnings record of a property the higher the
5 cost of money you will come up with under this
6 method. I say it is a perfectly proper thing to do
7 and a nice calculation to make but after you get it
8 you have to ask "What will I do with it?" and I
9 am saying that built into this method is a concept
10 that could be reasonable under certain circumstances,
11 that I would want to go out and raise capital to
12 reproduce this plant, \$800 million or \$1 billion.
That is the way the thing is constructed.

13 Q. I suggest to you that is wrong for this
14 reason, that in developing costs you have historical
15 costs for debt and we receive the equity capital.
16 You take the alternative investment opportunities and
17 it is alternative investment opportunities in which
18 investors can place their funds that figures
19 and develops cost of money for the enterprise that is
before the tribunal; do you disagree with that?

20 A. Yes, sir. What the procedure is is
21 just that simple. Mr. Smith says there is a stock-
22 holders equity of \$847 million, that is his figure, and
23 he says if you are going to try to raise that amount
24 of money you would have to pay the prospective investor
25 $9\frac{1}{2}$ per cent. He does not say what to do if you
are going to have to raise that amount of money.

26 Q. Show me where he says that in the
27 transcript?

28 A. He has to say that, it is arithmetic.
29 He takes $9\frac{1}{2}$ per cent of \$847 million and adds that
30



1
2
3 to some others for fixed charges and divides that total
4 again to what is required by his base and he gets
5 a figure on earnings which is -- I do not have the
6 figure here.

7 Q. What he does is -- surely it is a ---

8 A. 6.47 per cent up to 6.88 per cent.

9 Q. What I am suggesting to you is that
10 what he does is measure in the replacement all the
11 equity but he recognizes to attract equity you have
12 to meet the alternative investment opportunities of
13 the market. If you are not going to treat the
14 equity and the enterprise fairly you cannot attract
15 additional equity so when you say he is trying to
16 rebuild the whole plant, that is wrong in concept,
17 and I think he made that clear in his testimony.

18 A. No sir, I cannot make this point
19 strong enough because I feel very strongly about it
20 and if there is any confusion about it it is because
21 the record does not fully clarify the mechanics
22 of what he said. It is just arithmetic that what
23 he did was take \$847 million of ordinary stock and
24 retained earnings.
25
26
27
28
29
30



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30

Q. Yes.

A. And that appears as schedule 15 of his statement.

Q. Yes.

A. And he applied to that a rate of $9\frac{1}{4}\%$ and that is the biggest thing -- it is about 70% or better of the total rate of return that he is urging on this Royal Commission, and that is nothing more mechanically, nothing more than taking $9\frac{1}{2}\%$ of 847 million and saying that is the number of dollars I have to have.

Q. What that is saying, I suggest to you, and ask you if you agree, is this: that the distinction between the person who is approaching this matter financially and an economist is quite marked?

A. Yes, sir.

Q. And you are taking an economic situation: what you are saying is, "assume with me that we are going to replace the entire plant and I have then looked at the numbers --

A. No, sir.

Q. Just a minute: while the financial man says, "I have to treat capital already invested equitably or I cannot get additional increments of equity capital because they will not invest with me unless I treat what is already there equitably and fairly"?

A. I do not question that for a minute. I do not think we have any problem on the theory at that point.



1
2 COMMISSIONER ANSCOMB: Do you say you
3 disagree with what has just been said?

4 THE WITNESS: No, I do not disagree with
5 that -- not on this point.

6 COMMISSIONER ANSCOMB: Just those few
7 words.

8 THE WITNESS: Not about the financial man
9 and the economist.

10 COMMISSIONER ANSCOMB: No, I am talking
11 about the last few words.

12 MR. SINCLAIR: Q. Well, let us clear it
13 up: you do agree, Mr. Saunders, that you have to treat
14 the equity capital already invested fairly or you cannot
15 get added increments of equity capital?

16 A. That is right. I do not think there
17 is any problem on that score, but where the trouble comes
18 into all of this is that, having said that, your witness
19 went ahead and applied these rates of 4% on equipment
20 trust certificates and $2\frac{1}{2}\%$ on lease loan securities --

21 Q. Well, these are not equity capital.
22 These are historical costs as determined from the books.

23 A. Yes sir. He applied very low rates
24 which represent actual cost on the previous borrowings.
25 He applied those and came out with a composite
26 requirement for all of that portion of it -- some
27 \$470 million -- as 1% of his total requirement. Then,
28 the rest of it is $9\frac{1}{2}\%$.

29 Q. 1%?

30 A. 1% of the $6\frac{1}{2}\%$ that you were asking for



1
2 is made up of these low rates of interest you have just
3 described. Then $9\frac{1}{2}\%$ was applied to \$847 million which
4 makes up $5\frac{1}{2}\%$ of the total of $6\frac{1}{2}\%$ that you are asking for.
5 Now, that is the place at which I fall off the train
6 because I say under that method you are assuming --
7 he is assuming that this weighted average cost of money
8 must come from \$847 million of investment.

9 Q. But, Mr. Saunders, would you rather
10 calculate this way: instead of taking the cost on
11 the debt capital, to take the present cost of securities
12 having the same standing as the securities involved and
13 put constant actual cost on debt capital and then float
14 that through the debt equity ratio of the corporation
15 and come up with a composite figure that way? Would you
16 rather do it that way?

17 A. I am saying, no matter how you do it
18 you make the whole calculation based on the whole
19 investment for this \$1 billion 440 million, and this
20 assumes -- and I cannot see how there can be any
21 disagreement -- this assumes you are going to try to
22 recover that kind of money by floating \$800 million of
23 securities at $9\frac{1}{2}\%$ and \$400 million of debt at $3\frac{1}{2}\%$.

24 Q. Are you suggesting any financial man
25 would try to come before anybody who knows anything about
26 the market and say, "I am going to raise \$400 million
27 or \$500 million of debt at 3.37% or whatever it is ---

28 A. Yes; 3. something -- 3.3.

29 Q. Is that what you say is the result of
30 that?



1
2 A. That is what he has done here.

3 Q. Well, Mr. Saunders, I must say --

4 MR. MacKIMMIE: Let him answer.

5 THE WITNESS: This is what your witness
6 did, and that is the arithmetic of his calculation,
7 and it is perfectly clear on schedule 15. My only point
8 is that I do not care about the rates. I am not
9 questioning the 3% or the 9%. I am questioning a much
10 more fundamental thing. I agree you may have to pay
11 9% or 3% or 4% for certain securities. There is no
12 controversy about that. My point is that when you have
13 made that calculation it is very interesting, but it
14 does not have any practical application because nobody
15 reproduces a regulated thing like a railway just as is,
16 or just as it is made up in terms of track miles and
17 equivalents, and so forth. It is a very interesting
18 calculation; that is all.

19 Q. I think your remarks are interesting,
20 too, but I wish to test them: do you suggest that in
21 calculating the cost of money to a regulated utility
22 that you should not take the historical cost of debt,
23 but that you should substitute current debt costs?

24 A. I am perfectly willing to have you
25 take it either way.

26 Q. You are?

27 A. Yes, sir.

28 Q. Well then, the difference would be
29 substantial?

30 A. Yes.



1
2 Q. Because current costs of debt are very
3 much higher than the historical costs of debt?

4 A. No question about it.

5 Q. But when you approach the regulated
6 utility and look at this cost of money, you must look at
7 things as they are, and you say, I suggest and ask you
8 to agree, that debt money is paid on the historical
9 basis that it has in the books and that you maintain
10 your credit by meeting your contracts?

11 A. That is true.

12 Q. That equity money is treated by looking
13 at what investors of alternative investments would require,
14 and you treat an investment in the corporation in equities
15 by that method?

16 A. There is no controversy about that.
17 I am just saying after you have made that calculation
18 you have to ask yourself, "What am I going to do with
19 it?", and I say with that calculation you are assuming
20 that you will reproduce the whole plant as it is --
21 \$1 billion 400 million worth of miles of track and
22 so forth.

23 Q. Well, you have told us that.

24 MR. MacKIMMIE: And you still do not
25 understand.

26 MR. SINCLAIR: Well, it is a question
27 of argument of what you do after that calculation.

28 THE WITNESS: Well, the arithmetic is
29 all I am talking about.

30 --- Adjournment ---

HANDBOUND
AT THE



UNIVERSITY OF
TORONTO PRESS

